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No. _____

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In The

Supreme Court of the United States

GRACE CONSULTING, INC. t/a GRACE MAINTENANCE INT. and ANTHONY ILUTZI,

Petitioners,

v.

DUN & BRADSTREET SOFTWARE SERVICES, INC. and GEAC COMPUTER SYSTEMS, INC.,

Respondents.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Third Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Whether "custom and practice" in the interpretation and operation of License Agreements precludes a finding of copyright infringement.

2. Whether the Third Circuit erred in finding copyright infringement by failing to permit consultant maintenance services where both the License Agreement and the industry custom and practice permit such maintenance.

3. Whether the Third Circuit erred in precluding Petitioners from raising a defense of copyright misuse.

4. Whether the Third Circuit erred in not finding that Section 301 of the Copyright Act preempts trade secret claims.

LIST OF PARTIES

Grace Consulting, Inc. t/a Grace Maintenance Int. and Anthony Ilutzi (collectively referred to herein as "Grace") and Dun & Bradstreet Software Services, Inc., subsequently known as Geac Computer Systems, Inc. and Geac Enterprises Solutions, Inc. (referred to herein as "DBS" and "Geac").

CORPORATE DISCLOSURE

Not applicable.

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OPINIONS AND JURY VERDICT BELOW

The opinion of the Third Circuit is published at 307 F.3d 197. (Appendix, hereafter "App." 1-48) The jury verdict below was entered on June 2, 2000. (App. 54-57) The District Court's decision denying DBS' motion for judgment notwithstanding the verdict or alternatively for a new trial was rendered on August 7, 2000. (App. 59-74) The District Court rendered a decision on August 13, 1996 granting Petitioners' motion for summary judgment on the misappropriation of trade secrets claim. (App. 77-90)

STATEMENT OF JURISDICTION

The decision and judgment of the Third Circuit sought to be reviewed were entered on September 24, 2002. (App. 1-51) The Third Circuit denied Petitioners' Petition for Rehearing En Banc on December 4, 2002. (App. 52-53) This Court has jurisdiction under 28 U.S.C. § 1254(1) and Rule 13.1 of the Supreme Court Rules.

STATUTORY PROVISIONS INVOLVED

17 U.S.C. § 102. Subject matter of copyright; In general

> (a) Copyright protection subsists, in accordance with this title, in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. Works of authorship include the following categories:

(1) literary works;

* * *

(b) In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.

17 U.S.C. § 106. Exclusive rights in copyrighted works

Subject to sections 107 through 122, the owner of a copyright under this title has the exclusive rights to do and to authorize any of the following:

(1) to reproduce the copyrighted work in copies or phonorecords;

(2) to prepare derivative works based upon the copyrighted work;

(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;. . . .

17 U.S.C. § 117. Limitation on exclusive rights; computer programs

(a) Notwithstanding the provisions of section 106, it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided:

(1) That such a new copy or adaptation is created as an essential step in the utilization of

the computer program in conjunction with a machine and that it is used in no other manner. . . .

17 U.S.C. § 301. Preemption with respect to other laws.

(a) On and after January 1, 1978, all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in the tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103, whether created before or after that date and whether published or unpublished, are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.

(b) Nothing in this title annuls or limits any rights or remedies under the common law or statutes of any State with respect to –

(1) subject matter that does not come within the subject matter of copyright as specified by sections 102 and 103, including works of authorship not fixed in any tangible medium of expression; or

* * *

(3) activities violating legal or equitable rights that are not equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106;

17 U.S.C. § 101. Definitions

Except as otherwise provided in this title, as used in this title, the following terms and their variant forms mean the following:

A "derivative work" is a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship, is a "derivative work".

STATEMENT OF THE CASE

This case involves the licensing practice and conduct of the dominant company in the market for financial/accounting software industry. DBS has 60% of the mainframe Financial Application software market, and 95% of the market for maintenance of the software. The issues ultimately relate to the effect of restrictive practices by the dominant firm on the ability of independent companies to continue to provide customers with services for the software.

Petitioners Grace Consulting, Inc. and Anthony Ilutzi, Grace's owner, have been involved in the software consulting and maintenance business for many years. They service major United States corporations using DBS' software. They are also able to provide such computer services at a fraction of DBS' cost.

Through the years, DBS disseminated its software at many public fora. DBS taught consultants how to use and modify its software. DBS distributed its software in the form of source code, which is a format which allows consultants to modify the software to fit a customer's needs. (In contrast, DBS could have distributed its software in the form of "object code" which cannot be modified.) In fact, DBS actually sponsored classes for their licensees and consultants, instructing them how to modify, enhance and maintain the DBS code. Indeed, Mr. Ilutzi attended some of DBS' classes where he was taught how to modify DBS' source code for DBS' customers. DBS encouraged consultants and customers to make such modifications to its Code and distributed such items as customizers and DBS tools which permit DBS' licensees and their consultants to make such modifications.

Indeed, the License Agreement involved in this case (referred to as the McCormack & Dodge, or "M&D" agreement) specifically allows such maintenance to its software by the licensees and their consultants such as Grace. DBS never disputed this and never introduced any contradictory evidence. Under the M&D License Agreement, the licensee was given the software for its use for a period of 99 years. (App. 94). The License Agreement expressly authorizes the licensees to maintain and modify the system. Paragraph 9.d. of the Agreement provides: "Customer shall customize any and all Licensed Materials provided by M&D to fit custom or unique requirements of Customer's user and data processing departments." (App. 96)

The License Agreements at issue also expressly permits the licensee to use consultants to maintain their system. The only requirement is that the consultant sign a

non-disclosure agreement. Section 15 of the License Agreement provides:

> Customer may also *disclose M&D confidential information to Customer's consultants* who have been retained to perform work for hire in connection with Customer's use of the System. All Customer consultants having access to M&D confidential information will be required to execute a non-disclosure agreement acceptable to M&D prior to disclosure. [App. 99, Paragraph 15; emphasis added.]

Similarly, DBS' Program Maintenance Schedule, which is an integral part of the License Agreement, specifically provides that DBS' maintenance program is "elective". (App. 103)

The unrefuted evidence at trial was that Grace signed a non-disclosure agreement with every DBS customer for whom it performed maintenance services to protect DBS' proprietary information. Paragraph 5 of that Agreement entitled "Contract for Programming Services" reads in pertinent part:

> Any proprietary or confidential information, including source code, object code, documentation, and related know-how (hereinafter "information") furnished or disclosed by Customer to Grace shall be deemed proprietary and the property of Customer or, as applicable, the property of third parties including software vendors and Licensors. . . .
>
> During its use of the information, Grace agrees to take reasonable precautions to insure the protection and confidentiality of the information. Grace agrees not to disclose, provide, or

> otherwise make available the information to persons other than Grace's staff, Customers' employees and authorized agents, and employees and authorized agents of software vendors and licensors. Grace agrees not to print, copy, or reproduce the Information except as necessary for the purpose of assisting its Customer. [App. 106-107]

Grace went even further than required by the License Agreement to protect DBS. Grace had every one of its consultants sign a nondisclosure agreement whenever they worked on DBS' software. One example of these agreements is appended at App. 111-112. This agreement included a specific provision that all work the consultant performed on DBS software belonged to DBS or the licensee. That Agreement provides in pertinent part:

> Staff Member acknowledges that he or she is being permitted to study the System for the purpose of assisting Grace's Customer ("Customer") in the evaluation and utilization of the System to meet Customer's particular requirements.
>
> Staff Member agrees not to disclose, provide or otherwise make available the System to persons other than Grace's staff, who have also executed an acknowledgment of this type, Customer's employees, Customer's agents authorized by DBS, or DBS employees for purposes specifically related to Staff Member's and Grace's study of the System. [App. 111-112]

DBS' general counsel also testified that "virtually anybody was acceptable to Dun & Bradstreet, any reputable firm." DBS' general counsel testified that the nondisclosure agreement only had to be a two-party agreement, between Grace and the licensee. Indeed, he acknowledged

that DBS did not have to be a party to these agreements, and that DBS did not always require that a non-disclosure agreement had to be signed by a consultant.

Further, in addition to the express authorization in the License Agreements, it was DBS' practice to allow and even encourage consultants such as Grace to make such modifications to its software. The evidence at trial was overwhelming and unrefuted that DBS' course of conduct was to allow such modifications to its source code, as amplified above. As part of such a maintenance process, the licensee or its consultant acting on its behalf must modify the DBS program as well as utilize the IBM software based function of program calls and copies to maintain the code.

Grace started its maintenance program in response to customer requests. DBS' maintenance program was expensive and also involved requiring customers to purchase upgrades. The annual cost for DBS' maintenance could be as much as $300,000 for a suite of programs. Grace's price was much lower.

Grace commenced a "remain on release" maintenance program in 1993. This program allowed customers to continue to use their present release without having to accept expensive and often unnecessary upgrades from the vendor. Under this program Grace would maintain the customer's program for a fixed price.

DBS' general counsel stated that he is not aware of any instance where Grace divulged any of its confidential information. Grace does not distribute to others the corrections it makes for a particular customer. It does not use the modified source code from one customer in work for other customers. Nor has Grace ever tried to sell any

work developed as a result of work performed at a DBS' licensee's place of business.

DBS' general counsel testified that the mainframe computer for which DBS' software is designed was becoming outdated. Customers were moving away from the mainframe to other systems. As a result, DBS had fewer licensees and revenues from licenses were declining. Maintenance became "the lifeblood of the company." (See App. 69) DBS lost money because of Grace's competition. DBS asserted its copyright claims in an effort to dominate the maintenance market. DBS only asserted copyright infringement after it had lost revenues in its software business and Grace became a significant competitor in its maintenance business.

Grace has performed maintenance services for DBS licensees since 1987. DBS never previously objected to such services. It was only when Grace instituted its remain on release program to benefit DBS' licensees that DBS alleged infringement.

On December 19, 1994, DBS communicated with all 17,000 of its M&D customers threatening them with loss of their license if they used Grace for maintenance. First, DBS' general counsel stated that DBS "allow[s] your employees and approved contractors access to our software and related materials". However, DBS went on to single out Grace and threatened that the customers can jeopardize their license if they let Grace maintain their software: "Given the serious consequences of such a relationship, *including potential license termination*, I urge you to exercise great care before making any decision involving third party maintenance relationships." DBS clearly

changed the licensees' rights under the existing agreement and by doing so impermissibly extended its copyrights.

DBS filed a complaint alleging copyright infringement and misappropriation of trade secrets. The District Court dismissed DBS' trade secret case on the grounds that it was pre-empted by 17 U.S.C. § 301, cited above. The basis of jurisdiction was federal question jurisdiction pursuant to 28 U.S.C. §§ 1331, 1338(a) and 1367 because the plaintiff's complaint alleges claims under the Federal Copyright Act and related state law claims.

The case was tried by a jury over a nine-week trial. On June 2, 2000, the jury entered a verdict in favor of Grace and against DBS, finding that no copyright infringement had occurred. DBS filed a motion for judgment notwithstanding the verdict and for a new trial, which was denied by the trial judge. (App. 75-76) A key finding of the trial judge was that the course of conduct of the parties established that Grace's services did not infringe. (App. 69-70) One such area was the right of the licensees to use third-party software in conjunction with the Geac software without requiring Geac permission. This process referred to as "call and copy" is essential to enabling a customer to self-maintain and a cornerstone of interoperability.

DBS appealed and on September 24, 2002, the Third Circuit entered a decision and judgment against Grace. Despite the language of the license agreement and DBS' course of conduct, the Court reversed and found copyright infringement as a matter of law. The Court rejected DBS' course of conduct, holding that: "A defense of industry custom and practice in the face of protective provisions of the Copyright Act could undermine the purposes and objectives of the statute and reduce it to rubble." 307 F.3d

at 211. Thus, the Appeals panel sided with Geac's "new" interpretation rather than the custom and practice established at trial. Further, the Third Circuit disregarded custom and practice with respect to "call and copy."

On the trade secret claim, the Third Circuit reviewed the issue of whether an "extra element" existed. The District Court had held that no such extra element existed and that the Copyright Act preempted such a claim:

> The instant Complaint alleges a cause of action based on the use theory. Plaintiff asserts that defendants "have illegally and without D&B's permission *copied* these proprietary D&B materials and *used* this confidential information to solicit existing D&B licensees with the intention of providing these licensees with maintenance services for D&B software in competition with D&B." . . . Hence, this claim does not contain the extra element necessary to avoid preemption. [App. 88]

The Third Circuit acknowledged that this was a case of "first impression" for that Circuit. 307 F.3d at 217. The Third Circuit reversed the lower court's holding that this claim was preempted by the Copyright Act and remanded this part of the case to the District Court. The Third Circuit also affirmed the District Court's disallowance of a defense on misuse of copyright and reserved decision on the legal viability of that defense for another day. 307 F.3d at 221.

REASONS FOR GRANTING THE PETITION

I CERTIORARI SHOULD BE GRANTED TO RESOLVE THE CONFLICT AMONG THE CIRCUITS AND REVERSE THE THIRD CIRCUIT'S HOLDING THAT THIRD PARTY SERVICE MAINTENACE IS BARRED BY THE COPYRIGHT ACT NOTWITHSTANDING THE TERMS OF THE LICENSE AGREEMENT AND THE COURSE OF CONDUCT OF THE PARTIES AND THE CUSTOM AND PRACTICE IN THE INDUSTRY

The Third Circuit erred in finding copyright infringement when the License Agreement between Geac and their customers expressly permits maintenance of Geac's software by outside consultants. Paragraph 15 of Geac's License Agreement expressly provides that their licensee "may also disclose M&D confidential information to Customer's consultants who have been retained to perform work-for hire in connection with Customer's use of the System". This is a substantial question as hundreds of major corporations and other entities utilize maintenance by outside consultants pursuant to similar license agreements. A major part of their operations will be jeopardized to the detriment of the public at large if the Third Circuit's decision is allowed to stand.

The Service Industry Association ("SIA") filed an Amicus Curiae Brief dated June 22, 2001 supporting Grace's position in which it pointed out that it represents over 150 service organizations providing similar consultants' services to equipment manufactured by others, many with similar license agreements. Thus, this Court's decision affects an important and substantial part of interstate commerce. This Court's decision will effectively void thousands of license agreements and wreak havoc on the

hundreds of companies and thousands of persons engaged in the after-market service industry.

The Amicus Curiae Brief filed with this Court by the Service Industry Association made this clear:

> Service Industry Association ("SIA") is an organization of over *150 independent service organizations* ("ISO's"), *i.e.*, organizations that service equipment manufactured by others. The members of SIA service high-technology equipment and software, ranging from computers to the type of financial software created by the Appellant ("GEAC") at issue in the case below. SIA's members organization employ thousands of people, and account for over *$1 billion* in commerce each year.
>
> * * *
>
> Because most, if not all, of SIA's member organizations offer service for products that are patented or copyrighted, SIA has a substantial interest in the outcome of this appeal. [Amicus Curiae Brief at 1, dated June 22, 2001, App.114; Emphasis added.]

If the Decision is left to stand, no consultant could ever perform services – even where the License Agreement expressly permits such services and where the consultant has complied with the License Agreement as Grace did in this case. The Panel's decision is also directly contrary to other Circuit decisions. Thus, the Fifth Circuit in *Hogan Systems Inc. v. Cybresource Int'l. Inc.*, 158 F.3d 319 (5th Cir. 1998), *reh. en banc den.*, 165 F.3d 25 (5th Cir. 1998), held that "[w]hat [the licensee] could itself do under the License, [the licensee] may use a contractor to do." *Id.* at 324. The consultant activities were deemed to be "sheltered"

under the License Agreement. The case for Grace is much stronger since in *Hogan*, the language of the License Agreement did not even mention the right of consultants to maintain, which is expressly permitted in DBS' Agreement. *Id.* at 322. Similarly, this Court will also be asked to decide the issue of whether licensees' and their consultants' use of the "call and copy" commands found in most software programs constitutes copyright infringement as the Third Circuit found or whether they are used as operative tools which do not infringe our copyright laws under the *scenes a faire* doctrine as enunciated by the Second Circuit in *Computer Associates International, Inc. v. Altai, Inc.*, 982 F.2d 693, 709-710 (2d Cir. 1992) and by the Tenth Circuit in *Mitel, Inc. v. Iqtel, Inc.*, 124 F.3d 1366, 1375 (10th Cir. 1997) and in *Gates Rubber Co. v. Bando Chem. Ind. Ltd.*, 9 F.3d 823, 838 (10th Cir. 1993).

The ineluctable consequence of the Panel's decision will be DBS' imposition of severe strictures on its licensees' ability to maintain the software. This will eliminate all competition and will void all the License Agreements which have been in effect for many years and which DBS' customers bargained and paid for. The Decision would thus leave the licensees at the mercy of DBS, which can now impose onerous terms as to DBS' sole maintenance of the software, contrary to Section 15 of the License Agreement.

If left to stand, the Third Circuit's decision will destroy competition throughout the third-party services industry. As the Service Industry Association set forth in its Brief below:

> SIA submits this *amicus curiae* brief in support of Appellees ("Grace") to ensure that the jury verdict below is upheld. If reversed, ISO's for

> high-technology equipment will either cease to exist or will exist only at the sufferance of the original equipment manufacturers – all of whom, like GEAC, have product patents or copyrights which they could use to lessen competition for service of those products. [App. 115]

This Court should resolve the seminal legal question whether "custom and practice" in the interpretation and the operation of License Agreements precludes a finding of copyright infringement. The Decision below stands as an absolute bar against defending against a copyright infringement claim based on the course of conduct of parties or the custom and practice in the industry. The Third Circuit's ruling is contrary to other Circuit Courts' opinions, including prior decisions of the Third Circuit. The Third Circuit's decision is in conflict with the holding of other Circuits that the meaning of a license, as with other types of contract, must be interpreted in light of the terms of the agreement, the commercial context and the manner in which the parties performed under the license. While the Third Court rejected application of "industry custom and practice" in the interpretation of the License Agreement, other decisions have held that course of conduct between parties will supersede even seemingly plain contract terms. *Northbrook Insurance Co. v. Kuljian Corp.*, 690 F.2d 368, 372 (3d Cir. 1982); *Mellon Bank v. Aetna Business Credit*, 619 F.2d 1001, 1011 (3d Cir. 1980); *Power Lift, Inc. v. Weatherford Nipple-Up Sys., Inc.*, 871 F.2d 1082, 1085 (Fed. Cir. 1989); *Bloom v. Hearst Entertainment, Inc.*, 33 F.3d 518 (5th Cir. 1994). Also see *Langer v. Monarch Life Insurance Co.*, 879 F.2d 75, 81 (3d Cir. 1989) ("course of performance is *always relevant* in interpreting" writing). And see UCC Section 1-205 ("course of dealing and usage of trade"); UCC Section 2-208 (course of performance).

Indeed, the Panel's ruling is contrary to the Third Circuit's decision in *MacLean Assocs. v. Win. M. Mercer-Meidinger-Hansen, Inc.*, 952 F.2d 769, 778-79 (3d Cir. 1991), which held that a license will be implied by a course of conduct.

The Third Circuit's legal analysis flies in the face of logic and the actual transactions practiced in the commercial world. DBS (like many other companies) authorized, and indeed, encouraged the use and modifications of its source code by third parties, and in particular, consultants. By its conduct, DBS waived any copyright infringement claims and is equitably estopped since maintenance companies like Grace relied on its course of conduct. Such a course of conduct is dispositive to the interpretation of the terms of a License Agreement. Such agreements relate to complex commercial transactions and can only be fully understood as they are interpreted and acted upon by the parties to such agreements. The evidence was overwhelming and admitted by DBS that it allowed and even encouraged consultants to modify its code for customers.

The Decision below will allow DBS and other such companies to stifle competition. Notwithstanding the language of the License Agreement and DBS' course of conduct allowing such maintenance, the Third Circuit has disallowed all competition. If the case is left to stand, then no License Agreement can pass such draconian scrutiny.

II CERTIORARI SHOULD BE GRANTED TO RESOLVE THE CONFLICT AMONG THE CIRCUITS ON ASSERTING A DEFENSE FOR COPYRIGHT MISUSE WHERE THE OWNER OF A COPYRIGHT MISUSES ITS COPYRIGHT TO GAIN CONTROL OVER THE MARKET FOR SERVICES THAT ARE NOT WITHIN ITS COPYRIGHT

The Supreme Court is also presented with the question whether the courts below erred in dismissing Grace's defense that Geac engaged in copyright misuse. The Third Circuit has never addressed the legal viability of this defense. 307 F.3d at 221. The doctrine of copyright misuse was enunciated in *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970 (4th Cir. 1990). There, the Court held that a copyright owner's suit for infringement was barred because the copyright owner had abused its copyright privileges by imposing onerous license terms on a licensee, the effect of which was to prevent the licensee from competing in the development of similar software for the term of the license, which was 99 years. This misuse barred any infringement claim against a third party that had not entered a license with the copyright owner. *Lasercomb* has been followed by other Circuits. *Practice Management Information Corp. v. American Medical Ass'n*, 121 F.3d 516, 520-21, as amended, 133 F.3d 1140 (9th Cir. 1997, as amended 1998), *cert. den.*, 524 U.S. 952 (1998); *Alcatel USA, Inc. v. DGI Technologies, Inc.*, 166 F.3d 772, 792 (5th Cir. 1999).

Copyright misuse occurs if a copyright owner improperly uses its copyright to obtain control of the market for products or services that are not within the copyright. The law "forbids the use of the [copyright] to secure an exclusive

right . . . not granted by the [Copyright] Office and which is contrary to public policy to grant." *Alcatel*, 166 F.3d at 792.

Copyright misuse was clearly shown in this case. In its actions with respect to Grace and in its other licensing practices, DBS sought to use its copyright to take and retain control over an entirely different market than that covered by the copyright. DBS sought to control services and maintenance with respect to its software. The use of the copyright to achieve control over an entirely different activity or market is copyright misuse. *Alcatel USA, Inc. v. DGI Technologies, Inc.*, 166 F.3d 772, 792 (5th Cir. 1999).

Copyright misuse arises when a copyright owner uses its copyright rights to control market activity beyond mere copying or other copyright rights. In this case, DBS has used its copyright to control competition for services. The misuse here occurred when DBS undertook a practice of attempting to use its copyright to alter established practice in which third parties such as Grace could provide maintenance services with respect to DBS software.

After years of allowing third party consultants to maintain the software, DBS embarked on a practice of using its copyright to alter the express provisions in its license agreements for the software to stifle competition, designed to exclude third parties from the services market. This includes DBS introducing a new nondisclosure form that prohibits "maintenance" and mandates that the form is the only "acceptable agreement" that complies with the terms of its license agreement.

III THE THIRD CIRCUIT ERRONEOUSLY HELD THAT THE COPYRIGHT ACT DOES NOT PREEMPT THE TRADE SECRETS CLAIM AND THE CONFLICT AMONG THE CIRCUITS SHOULD BE RESOLVED BY THIS COURT

This Court is also presented with the important question of whether section 301 of the copyright law preempts trade secret claims, as the District Court found. The Court now has an opportunity to rule on the significant question of what "extra element" is required to preclude preemption.

The Third Circuit acknowledged that this was an issue of first impression before that Court. 307 F.3d at 217. Also implicated is the important question whether Geac's dissemination of its source code precludes a claim for trade secrets. *Nordale v. Samsco, Inc.*, 830 F. Supp. 1263 (D. Minn. 1993). The Third Circuit's decision is in conflict with that of other Circuits finding pre-emption under the Copyright Act. *Financial Info. v. Moody's Investors Serv., Inc.*, 808 F.2d 204 (2d Cir. 1986). The Third Circuit suggested that the mere departure of an employee from Geac many years ago with the knowledge of DBS' software could equate to such an "extra element". 307 F.3d at 218. The finding of an "extra element" cannot rest on such a thin reed. Without much more – such as breach of a covenant not to compete – which did not exist here, an extra element should not be created to eviscerate the preemption doctrine in our Copyright Law.

CONCLUSION

For the foregoing reasons, the Court should grant certiorari and, upon review, reverse the decision of the Court of Appeals for the Third Circuit.

Dated: March 3, 2003

Respectfully submitted,

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Anthony Ilutzi

307 F.3d 197

DUN & BRADSTREET SOFTWARE SERVICES, INC.; GEAC COMPUTER SYSTEMS, INC. v. GRACE CONSULTING, INC.; GRACE MAINTENANCE INT.; ANTHONY ILUTZI; GEAC ENTERPRISE SOLUTIONS, INC. f/k/a GEAC COMPUTER SYSTEMS, INC., Appellant No. 00-2772; DUN & BRADSTREET SOFTWARE SERVICES, INC.; GEAC COMPUTER SYSTEMS v. GRACE CONSULTING, INC.; GRACE MAINTENANCE; ANTHONY ILUTZI, Appellants No. 00-2932

Nos. 00-2772 and 00-2932

UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

307 F.3d 197; 2002 U.S. App. LEXIS 20297; 64 U.S.P.Q.2D (BNA) 1705; Copy. L. Rep. (CCH) P28,504

January 17, 2002, Argued

September 24, 2002, Filed

SUBSEQUENT HISTORY:

As Amended October 2, 2002.

PRIOR HISTORY:

Appeal from the United States District Court For the District of New Jersey. D.C. No.: 94-cv-01090. District Judge: Honorable Katharine S. Hayden.

DISPOSITION:

Affirmed in part, reversed and vacated in part, and remanded with directions.

COUNSEL:

Wayne C. Matus (Argued), LeBoeuf, Lamb, Greene & MacRae, New York, NY. Harvey C. Kaish, McCarter &

English, Newark, NJ. Peter J. Gallagher, Salans, Hertzfeld, Heilbronn, Christy & Viener, New York, NY, Counsel for Appellant Geac Computer Systems.

Andrew J. Kyreakakis (Argued), Ambrosio, Kyreakakis, DiLorenzo, Moraff & McKenna, Bloomfield, NJ, Counsel for Appellees Grace Consulting, Inc. and Grace Maintenance.

Leonard T. Nuara (Argued), Thacher, Proffitt & Wood, Jersey City, NJ, Counsel for Appellee Anthony Ilutzi.

Ronald S. Katz, Coudert Brothers, San Francisco, CA, Counsel for Amicus for Appellee Service Industry Association.

JUDGES:

Before: SCIRICA, ROSENN, Circuit Judges, and KANE,* District Judge.

OPINION BY:

Max Rosenn

OPINION:

OPINION OF THE COURT

ROSENN, Circuit Judge.

This appeal presents serious problems of alleged copyright infringement in an evolving and highly competitive world of computer technology that challenges the

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* Honorable Yvette Kane, United States District Court for the Middle District of Pennsylvania, Sitting by Designation.

effectiveness of our well-established copyright laws. Formerly known as Dun & Bradstreet Software Services, Inc. (DBS), Geac Computer Systems, Inc. (collectively Geac) is the undisputed owner of certain proprietary, copyrighted software, including a system known as Millennium. The system is designed to provide valuable services to the business community at large.

Millennium contains highly confidential information and trade secrets that were designed and developed by Geac at great effort and expense. Geac complains that Grace Consulting, Inc., its founder, president, and chief executive officer Anthony Ilutzi, and a related enterprise, Grace Maintenance, Int. (collectively Grace) deliberately have infringed on Geac's copyrighted software while in the course of providing consulting and maintenance services to companies licensed by Geac to use its software.

Geac brought suit against Grace in March 1994 in the United States District Court for the District of New Jersey.[1] Grace filed an answer together with counterclaims for breach of contract and tortious interference. The District Court struck Grace's counterclaims and six of its defenses after the close of testimony. The court, however, entered summary judgment in favor of the defendants on Geac's claim for misappropriation of trade secrets. On the remaining issues, the case was tried to a jury which returned a verdict in favor of the defendants. The Court

[1] The District Court had subject matter jurisdiction pursuant to 28 U.S.C. §§ 1331, 1338 and 1367 because the plaintiffs' complaint alleges claims under the federal Copyright Act and related state law claims. This court has appellate jurisdiction of the timely appeals from the final judgment of the District Court pursuant to 28 U.S.C. § 1291.

denied Geac's motions for a judgment as a matter of law after trial and for a new trial. Geac timely appealed. The Court also rejected Grace's claim for attorneys' fees. Grace timely cross-appealed. We affirm in part and reverse in part.

I.

BACKGROUND

A. GEAC'S MILLENNIUM SOFTWARE

Among the United States copyrighted products owned by Geac are twelve different software business applications, collectively known as Millennium. These applications keep track of a host of business information, such as accounts payable, taxes payable, accounts receivable, fixed assets, and others. Trade secrets and highly confidential information are found in a wide variety of materials relating to Millennium, including but not limited to: (a) source and object codes for applications and operating software; (b) software documentation; (c) software upgrades; (d) manuals and materials for training, installation, service and maintenance; and (e) customer lists and other information about the specific needs of its licensees. Geac faces substantial competition for all of its Millennium products, and its confidential information and trade secrets allow it to compete effectively and advantageously.

Geac authorizes its customers to use its Millennium software under licensing agreements that contain protective provisions for its trade secrets and copyrighted properties. The licensing agreements provide, *inter alia*, that if a customer engages a third party consultant to install or configure the software to the customer's needs or for maintenance, the consultant must execute a non-disclosure

agreement acceptable to Geac. Geac also offers maintenance service to its customers for its Millennium software which includes, among other things, telephone support, repairs, fixing program errors ("bugs"), and updated versions of Millennium. Millennium runs on a large mainframe computer that is typically licensed to large corporations and institutions, with the customers electing which of Millennium's twelve copyrighted software applications it wants to license.

At issue here is the Human Resources application known as HR:M. This application enables licensees to perform various payroll, benefits, and other employee-related functions in any jurisdiction in the United States. HR:M consists of numerous individual programs, each of which are self-contained units of code. Each of the programs performs one or more of the many individual tasks comprising the application. One of such programs is Geac's W-2 PAYTXABR. This W-2 program enables employers to prepare employee W-2s and related year-end reports required by federal and state taxing authorities.

B. GRACE'S OPERATIONS

Grace Consulting, Inc. is a New Jersey corporation with its principal place of business in Verona, New Jersey, and is engaged in the business of computers and software consulting. Anthony Ilutzi, a New Jersey resident, formed the company to provide consulting services to Geac licensees. This company also does business as Grace Maintenance, Int., which was formed in 1993 to provide a program of maintenance support services for Millennium. We refer to them collectively as Grace. Grace's activities in

implementing their services apparently triggered this suit by Geac.

Commencing in 1993, Grace offered and performed services for Geac's licensees, including customizing Millennium software for their specific needs, fixing "bugs" in Millennium software, providing tax and regulatory updates, and modifying Geac's programming language code.[2] Grace began offering Millennium licensees Grace's "Remain on Release" program, which provides Geac customers with Grace's own version of Geac's W-2 program. Grace

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[2] Instructions for a computer program may be written in any of three different levels of computer language.

> Computers can "understand" (that is, execute) only programs in "machine language" – the lowest level. A machine language is a cluster of "0" and "1" symbols called "bits," which are the only symbols recognized by digital computers. A program consisting of a sequence of machine language instructions is referred to as "object code."
>
> To make it easier for humans to read and write programs, two "higher" levels of languages exist. The first level is "assembly language." Assembly language instructions consist of alphanumeric labels rather than bits. To be executed by the computer, the alphanumeric instructions must be translated into their corresponding clusters of bits by another computer program known as an "assembler." At the next level are "high-level" computer languages, such as FORTRAN or COBOL, that employ English-like words and syntax and are therefore easier to use and understand than assembly or machine language. Each high-level instruction is the equivalent of several assembly or machine language instructions. A computer program known as a "compiler" translates high-level programs into the corresponding object code. Programs written in assembly or high-level languages are referred to as "source programs" or "source code."

Copyright Protection of Computer Program Object Code, 96 HARV. L. REV. 1723, 1725 (1983) (footnotes omitted).

represented that this software maintenance program "allows customers to stay on their present release without having to accept expensive upgrades from the vendor." Under this program, Grace purported to save Geac customers considerable money they presumably would pay Geac under its maintenance program.

Grace's W-2 software was initially developed by Cook & Reynolds Services, Inc. (CNR), a company formed by two former Geac employees, Stan Cook and Rick Reynolds. In 1996, Grace purchased the rights to CNR's W-2 program, revised it, and renamed the individual programs to begin with a "GMI" prefix instead of "CNR." The CNR W-2 then became known as "GMITXABR."

C. GEAC'S LICENSING AGREEMENTS

Geac has two standard Millennium licensing agreements that are at issue here: the DBS and the McCormack and Dodge (M&D) agreements (collectively, the License Agreements). The DBS License Agreement prohibits anyone from modifying Geac's Millennium software without Geac's authorization. The M&D License Agreements permit a third party consultant, in limited instances, to modify the Geac code, provided it satisfies the Agreement's non-disclosure and work-for-hire prerequisites for accessing the code.

Both of Geac's License Agreements prohibit the removal of the Geac code from the licensee's site. The M&D License Agreement authorizes and limits the licensee to use the system solely for its own internal operation on any central processor within Customer's data center at the location designated on the "Customer and Product Information Schedule" or, with the prior approval of Geac,

at a designated replacement site or service bureau. This Agreement defines use as "copying any portion of a Licensed Program . . . or transmitting [it] to a computer for processing of the instructions or statements contained in the Licensed Program." The Agreement expressly provides that "customer[s] shall not copy the System, in whole or in part, except as expressly provided in the [M&D] license agreement." The DBS License Agreement also restricts the use, including copying, of the Geac source code, solely for "purposes on the Hardware and Operating System Software at the Site." Both License Agreements bar the distribution of modified versions of the code. It is undisputed that approximately 35% of Grace customers are subject to the DBS license agreement and 65% are subject to the M&D license agreement.

In relevant part, the M&D License Agreement specifically provides:

> – Customer may also disclose M&D confidential information to Customer's consultants who have been retained to perform work for hire in connection with Customer's use of the System. All Customer consultants having access to M&D confidential information will be required to execute a non-disclosure agreement acceptable to M&D prior to disclosure.
>
> – Customer shall not copy the System, in whole or in part, except as expressly provided in this section. The System may be copied, in whole or in part, in printed or machine readable form, for use by Customer at the designated site, for archive or emergency restart purposes, to replace a worn copy, to understand the contents of such machine-readable materials. . . . "

At trial, Geac's counsel conceded that "under the M&D license, we allowed customers and consultants that qualified, to modify the source code for that customer only."

In relevant part, the DBS Software License Agreement specifically provides:

> – Customer may make a reasonable number of copies of the Program exclusively for testing, disaster recovery, inactive back-up or archival purposes.
>
> – Each party shall hold Confidential Information of the other in confidence. . . . All Confidential Information shall remain the sole property of the disclosing party.
>
> – Upon execution of a satisfactory nondisclosure agreement, third parties may have access to Confidential information.
>
> – All programs and Documentation, and any modification or copies thereof are proprietary and protected by copyright and/or trade secret law and no ownership rights are transferred by this Agreement.
>
> – Customer shall not modify, reverse engineer, reverse assemble or reverse compile any Program or part thereof. . . .

In addition, all third party consultants engaged to work on software products licensed by Geac to its customers are required to execute a consultant's non-disclosure agreement.[3] It provides, in relevant part, for an acknowledgment

[3] The consultant non-disclosure agreement allows Consultant access to certain proprietary and confidential information about the

(Continued on following page)

by the Consultant of the secret trade status of the source code, program and system design specifics and all related items or materials developed by or licensed to the licensee. It also requires an agreement to abide by all of the terms of these provisions, using items only in accordance with

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Program, modifications thereto and derivative works thereof, upon the following conditions:

> – Consultant may use the Confidential Information, including adapting, modifying and crating [sic] derivative works of the Program, solely for purposes of assisting Customer in evaluating the Program and/or implementing or modifying the Program at Customer's facility to meet Customer's particular requirements. Consultant may not use the Confidential Information to perform maintenance services for Customer or for any other purposes, and may not in any event distribute the Confidential Information to any third party including other DBS licensees.
>
> – All adaptations and modifications to the Confidential Information, and all derivative works thereof shall be deemed to be the sole property of [Geac], whether prepared by [Geac], Customer, Consultant or any other party. Consultant agrees that any such adaptations, modifications and derivative works prepared by Consultant for Customer shall be deemed to be work for hire as defined under the U.S. copyright law.
>
> – Consultant shall have no right to use, copy or disclose the Confidential Information, in whole or in part, except as authorized herein. Consultant may disclose the Confidential Information only to DBS's or Customer's employees in the scope of their employment who have a need to know and to obtain access thereto for the purposes described above and who are bound by a written agreement with Consultant to maintain the confidentiality of such Confidential Information in a manner consistent with this Agreement.
>
> – All tangible Confidential Information and any copies thereof, shall be promptly returned to DBS or destroyed at DBS's option upon request of DBS or upon termination of this Agreement.

the license agreements and making no duplicates of any items except with the written consent of the vendor as *necessary* in the course of any employment.

D. INFRINGEMENT CLAIMS

Geac claims that one of its most important software products is its Millennium package, including the twelve separate programs which compose it. It alleges that it has never authorized defendants to market or license Millennium software or upgrades, either to the general public or to specific business clients. The defendants, however, it asserts, have induced one or more of Geac's customers to provide them with Millennium software, upgrade programs, documentation, and customer lists, all of which constitute confidential information of Geac. Geac further alleges that Ilutzi and Grace have illegally and without Geac's permission copied these proprietary materials and used the confidential information to solicit directly in competition with Geac existing Geac licensees and provide them with software and maintenance service for Geac software. By improperly taking this confidential information and software programs, Geac alleges that Grace has avoided a substantial investment in time and money that Geac found necessary to develop the Millennium confidential package. Grace, therefore, has been able to offer their services at prices significantly lower than those charged by Geac. Further, Geac asserts that Grace has improperly used Geac's confidential information and materials to upgrade and alter Millennium software.

In a systematic attempt to lure away Geac's software maintenance customers, it alleges that Grace has disseminated advertising and marketing materials[4] to existing Geac licensees using Geac customer lists to which Grace had no right to access, as well as confidential and proprietary information and materials which they had no right to possess or use.

Geac's claims of copyright infringement may be divided into three general categories. First, Geac claims that the defendants have infringed upon the aforesaid copyrights not only by copying and obtaining unauthorized copies of Millennium programs and documentation but loading such copies into computer memory and delivering unlawful copies to Grace's customers, and amending the Millennium software. These acts of infringement, it asserts, were committed for the purpose of marketing, maintaining, and upgrading Millennium software without Geac's authority. Second, it claims that Grace's W-2 program contains literal copying of Geac's PAYTXABR package. Third, it also asserts that Grace's use of the Copy and Call commands to access Geac's software infringes.

In its answer to Geac's complaint, Grace states that it has entered into one or more Consultant's Confidentiality Agreements with Geac, but denies generally all other allegations of infringement alleged in the complaint. It

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[4] An excerpt of the nature of the marketing materials states: "GMI has its own proprietary Year End processing software for HR:M. This software was developed by Rick Reynolds and Stan Cook, both former developers of the M&D HR:M package and is in use at our maintenance clients as well as clients who are continuing on DBS maintenance but have found our W-2 process to be superior to the vendor's process."

claims that the consulting services it performed did not infringe because: (1) no copying was performed; (2) no derivative works were created; (3) any copying, if performed, was inadvertent and de minimis; (4) the "call and copy" commands used in providing services were non-infringing; (5) Geac licensing agreements authorized its customers to use maintenance services like Grace; and (6) the services that Grace performed comported with "standard industry practice" and Geac's licensing agreements.

In addition, Grace pled counterclaims for breach of contract and tortious interference. At the close of testimony, the District Court struck the following defenses: (1) copyright misuse defense; (2) de minimis defense; (3) waiver defense; (4) estoppel defense; (5) 17 U.S.C. § 117 defense; and (6) fair use defense. One of the struck defenses that Grace has cross-appealed only for is the copyright misuse defense. On appeal, Grace contends that as required by Section 15 of the License Agreement, it entered into non-disclosure agreements with each licensed customer it served in which each consultant agreed to protect the confidentiality of the software. It further argues that Geac's course of conduct demonstrated that consultants like Grace "were expressly permitted" to provide "maintenance to licensees." If there was some copying, it was de minimis and, therefore, not infringing.

II.

THE MOTION FOR JUDGMENT AS A MATTER OF LAW

Geac presented two motions for judgment as a matter of law during a complex and difficult trial and one after the jury returned its verdict for the defendants. The trial court denied each of them. A trial court's denial of motions

for judgment as a matter of law during the trial and after the verdict by the jury must be affirmed where the evidence viewed in a light most favorable to the non-moving party contains a "minimum quantum of evidence" reasonably to support the jury's verdict. *Keith v. Truck Stops of Am.*, 909 F.2d 743, 745 (3d Cir. 1990). Our review of a District Court's action in each of these instances is plenary. *Id.* In denying plaintiff's motion for judgment as a matter of law, the trial judge stated that she believed there was ample evidence on which the jury could have decided that the defendants were not liable for copyright infringement. She offered no explanation on what evidence she relied for her conclusion.

A motion for judgment as a matter of law should be granted only if, viewing the evidence in the light most favorable to the non-movant and giving it the benefit of every favorable and reasonable inference, there is insufficient evidence from which a jury reasonably could find liability. In assessing whether the evidence is sufficient to sustain liability, the court may not weigh the evidence, determine the credibility of the witnesses, or substitute its version of the facts for the jury's version. Although judgment as a matter of law should be granted sparingly, a scintilla of evidence is insufficient to sustain a verdict of liability. *Lightning Lube, Inc. v. Witco Corp.*, 4 F.3d 1153, 1166 (3d Cir. 1993). Thus, although the court draws all reasonable and logical inferences in the non-movant's favor, we must reverse an order denying judgment as a matter of law if, upon review of the record, it is apparent that the verdict is not supported by legally sufficient evidence.

Although we do not set aside a jury verdict lightly or without careful review of the complete record, we must

grant judgment here in this case as a matter of law because there is plain evidence of copyright infringement. When the record is distilled, filtered, and shaken down,[5] it becomes apparent that there is no legal basis for such infringement.

A. COPYRIGHT LAW

We commence our analysis with the relevant provisions of the copyright law. Beginning with the federal Constitution, copyright protection has enjoyed a revered place in our national legal system and in the development of the arts, sciences, the economy, and industrialization of our nation. Under Constitutional mandate, Congress is specifically empowered "To promote the Progress of Science and useful Arts, by securing for limited Time to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. CONST. ART. I, § 8. Congress enacted the first copyright statute as early as 1790. The existing copyright laws are codified in the Copyright Act of 1976 (the Act). This Act contains a complete revision of copyright law in response to far reaching new developments made in technology and the sciences. Congress amended the Act in 1980 expressly to extend copyright protection to computer programs and derivatives. 17 U.S.C. §§ 101 *et seq*.

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[5] Counsel for the parties were not of much assistance to the court with respect to the contents of the record. The joint appendix consisted of many volumes and supplemental appendices but the index to them does not identify or refer to a single witness by name. Typical references to the testimony are: "Excerpts of transcript trial" and date. This is meaningless and frustrating to the court. Moreover, the transcript of testimony also fails to identify the witness under examination.

The Copyright Act as amended provides, in relevant part, that:

> (a) Copyright protection subsists, in accordance with this title, in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of machine or device. Works of authorship include the following categories: (1) literary works:

17 U.S.C. § 102(a). Computer programs are entitled to copyright protection as "literary works." *Whelan Assoc. v. Jaslow Dental Lab.*, 797 F.2d 1222, 1234 (3d Cir. 1986).

To establish a claim of copyright infringement, a plaintiff must establish: (1) ownership of a valid copyright; and (2) unauthorized copying of original elements of the plaintiff's work. *Whelan,* 797 F.2d at 1231; *Gator Rubber Co. v. Bando Chem. Indus.*, 9 F.3d 823, 831 (10th Cir. 1993). Copying is a "shorthand reference to the act of infringing any of the copyright owner's five exclusive rights set forth at 17 U.S.C. § 106." *Ford Motor Co. v. Summit Motor Products, Inc.*, 930 F.2d 277, 291 (3d Cir. 1991). Of relevance here, 17 U.S.C. § 106 provides:

> Subject to sections 107 through 121, the owner of copyright . . . has the exclusive rights to do and to authorize any of the following:
>
> (1) to reproduce the copyrighted work in copies or phonorecords;
>
> (2) to prepare derivative works based upon the copyrighted work;

> (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;

In the instant case, the ownership of the copyrighted property is undisputed, as is its validity. The United States Copyright Office issued to Geac certificates of registration for all programs contained in its Millennium software package. What remains at issue is the copying, and much of the evidence in support of the plaintiffs' claim comes from the lips of Grace's president and its other witnesses. As we previously noted, *supra*, we divide Geac's claim into three parts. First, Geac claims that the defendants infringed upon their copyright by copying their software in the course of providing consultant and maintenance services to Geac's licensees. Second, Geac claims that Grace's W-2 programs contain literal copies of PAYTXABR. Third, Geac also asserts that Grace's W-2 program contains Copy and Call commands to Geac's source and object codes.

B. PAYTXABR AND DE MINIMIS

Initially, Grace performed maintenance work for Geac's licensees as to which Geac made no complaint. However, commencing in 1993, Grace expanded its activities beyond maintenance service to provide Geac's customers with software, particularly a program it called the "Remain on Release." Geac viewed the expanded activities beyond mere maintenance, and especially the sale of Grace software, as a violation of its exclusive rights under the Copyright Act to make and distribute derivative works of its Millennium programs.

Grace offered and sold a program that it obtained by copying and modifying Geac's copyrighted Millennium product known as PAYTXABR. Grace distributed and sold it as its CNRTXABR program. It acquired this program from Cook and Reynolds, and immediately renamed it the GMITXABR program.

Reynolds testified categorically on direct examination that his W-2 program was in no way similar to HR:M's (DBS Millennium) program. This unexplained statement, however, lacks substance and verity because it is wholly inconsistent with his testimony concerning the origin of his program. He testified that when he was installing programs presumably on behalf of Dun & Bradstreet's licensee Super Foods in Ohio, their local school district "wasn't showing up on the W-2." Reynolds, thereupon, asked for a copy of the PAYTXABR program. Then "I made a copy and renamed it CNRTXABR," and then made a fix for Super Foods to pick up the local school tax. He acknowledged that CNRTXABR "should have stayed at Super Foods and shouldn't have been distributed with the other code – a bad idea." This is a plain statement of the root of his infringement.

On cross-examination, he testified:

> Q: Could you have written the CNR W-2 program without making either copies or calls to Dun & Bradstreet copy members or source code?
>
> A: No.

Reynolds's denial of infringement is also inconsistent with earlier testimony given by Ilutzi under cross-examination wherein he admitted unequivocally that CNR W-2 "makes copies and calls to Geac codes" and that CNR's W-2 contains CNRTXABR. Ilutzi also admitted that Grace

initially distributed CNRTXABR as part of its W-2 software, later renamed and replaced it as part of its W-2 software with GMITXABR, and distributed it as part of its W-2 software. Ilutzi testified:

> Q: Do you admit that CNR W-2 makes copies and calls to Geac codes?
>
> A: Yes.
>
> Q: Do you admit that CNR W-2 contains CNRTXABR?
>
> A: Yes.
>
> Q: Do you admit that GMI W-2 makes copies and calls to Geac code?
>
> A: Yes.
>
> Q: Do you admit that GMI W-2 contains GMITXABR?
>
> A: Yes.

Ilutzi further admitted that CNRTXABR was created by copying and modifying Geac's program PAYTXABR and that Grace's "CNRTXABR was used in the making of GMITXABR," both of which supplied the same tax program.

Grace's counsel conceded at trial that Grace was not contesting its use of Geac's PAYTXABR. "It is there and that's literal copying." Ilutzi conceded under cross-examination that CNRTXABR should not have been in the CNR W-2 program because it was copied from PAYTXABR. He directed at the end of 1996 that Grace discontinue distributing CNRTXABR. Grace's expert, Dewar, acknowledged that Grace's distribution of CNRTXABR and GMITXABR was contrary to "standard industry practice."

However, he did not consider the distribution a copyright infringement because, in his opinion, it was de minimis.

In supporting its de minimis defense, Grace asserts that the quantitative infringement amounted to only twenty-seven lines out of 525,000 lines. This argument is irrelevant as a matter of law and we therefore will not tarry on the disputed factual element. The unrefuted trial testimony was that if one considers Grace's use of Copy and Call commands to gain access to PAYTXABR and the Geac code, the CNR W-2 program actually consists of 62% Geac code, and the GMI W-2 program possesses approximately 43% of Geac's code. Much more significant, however, than the quantity of copy is the *quality* of the material purloined.

A de minimis defense does not apply where the *qualitative* value of the copying is material. Kremin, Geac's technical expert, and Dr. Dewar, Grace's expert, both agree that Geac's software would not work if PAYTXABR were removed from it and that Grace's infringing W-2 software would not work without its copies of PAYTXABR. Thus, the information Grace copied was highly critical. In *Harper & Row, Publishers, Inc. v. Nation Enterprises,* 471 U.S. 539, 564-66, 85 L. Ed. 2d 588, 105 S. Ct. 2218 (1985), the Supreme Court rejected a claim that copying 300 to 400 words of a copyrighted book was insubstantial and constituted fair use of the material. The Court looked to the "qualitative value of the copied material, both to the originator and to the plagiarist." *Id.* at 565; *see also Educational Testing Serv. v. Katzman,* 793 F.2d 533, 542 (3d Cir. 1986). The trial judge appropriately struck the de minimis defense with respect to PAYTXABR from her jury charge and Grace does not contest this ruling. For the

foregoing reasons, Grace's de minimis argument made on appeal also must be rejected.

C. GRACE CONSULTING AND MAINTENANCE ACTIVITIES

We turn to Geac's second claim of infringement arising out of Grace's consulting and maintenance activities. In support of its infringement claims, Geac contends that Grace's witnesses admitted also copying Geac's copyrighted source code while fixing bugs, creating tax updates, customizing Millennium, modifying the program language code, and compiling, link editing and testing Millennium. Ilutzi admitted to modifying many of Geac's programs in all twelve Millennium applications. This modification was "large scale," and included compilation, link editing,[6] and testing of GMI W-2 software with the DBS code at customer sites, and modifying the Geac program language code. He further stated unequivocally that in fixing bugs and in adding features, Grace consultants have modified DBS's source code. When asked whether he would admit that his consultants would find it easier to copy and modify Geac's source code and cheaper for his customers rather than create a program from scratch, Ilutzi replied "absolutely." He also responded affirmatively when asked whether his consultants would

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[6] Dr. Dewar, Grace's expert, explained that "compiling" is a program that converts source code, which can be read by humans, into object code, which is binary, consisting of ones and zeroes that computers can read. Link editing further processes the object code into "executable files," which can then be run on the computer.

take Geac's software if one of his customers "wants software to perform a particular function."

We address Grace's contention that notwithstanding all of the foregoing evidence of infringement, none occurred. It asserts that both the terms of the License Agreements and Geac's course of conduct confirm that Geac expressly permitted computer consultants to provide maintenance to its licensees. Grace's position in general at trial and on appeal is that the License Agreements raise factual issues of interpretation.

We examine the M&D License Agreement wherein Grace claims authorization to copy Geac's programs. Grace refers to Paragraph 16 of the License Agreement that permits the consultant to copy a limited number of copies to be made or remain in existence at any one time "for use by the customer." However, Grace omits reference to a significant portion of Paragraph 16 which provides:

> Customer shall not copy the System, in whole or in part, except as expressly provided in this section. The System may be copied . . . *for use by Customer at the designated site*, for archive or emergency restart purposes, to replace a worn copy, to understand the contents of such machine-readable materials, or to store at the off-premises location which Customer uses for security storage purposes, provided, however, that no more than 10 printed copies and 10 machine-readable copies will be in existence under this license at any one time without prior written consent from M&D.

(Emphasis added).

Grace, however, asserts that its consulting and maintenance activities complied with the custom and industry practice. Paragraph 15 of the License Agreement does permit licensees to provide access to consultants they have hired to Geac's confidential information provided the consultants have executed a non-disclosure agreement acceptable to the licensor prior to disclosure.[7] Grace also contends that as required by Section 15 of the License Agreement, it entered into non-disclosure agreement with each licensed customer it served in which each consultant agreed to protect the confidentiality of the software.

The License Agreement between Geac and its licensees was crucial in the trial of this case. The record supports plaintiffs' arguments that many of the defendant's witnesses admitted to conduct which, in the absence of authorization from Geac, amounted to infringement of Geac's copyrights. These acts included copying its code, creating and distributing derivative works, and the extensive sale and marketing of Grace's W-2 program. Unless authorized by Geac, its right to create derivative works has been usurped by Grace, whose product instructs the computer to incorporate Geac copyrighted material with its W-2 program. This derivative work exists in a concrete or permanent form and substantially incorporated protected material from the pre-existing work. *See Micro Star*

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[7] Customer may also disclose M&D confidential information to Customer's consultants who have been retained to perform work for hire in connection with Customer's use of the System. All Customer *consultants* having access to M&D confidential information will be required to execute a non-disclosure agreement acceptable to M&D prior to disclosure.

v. Formgen, Inc., 154 F.3d 1107, 1110 (9th Cir. 1998).[8] Grace also copied Geac's copyrighted software code in creating bug fixes for Millennium, creating tax updates and customizing Millennium, making Millennium "year 2000 compliant," modifying the program language code, and compiling, link editing and testing Millennium. Ilutzi acknowledged that he has written enhancements for his clients for Geac's HR:M program and readily agreed that he used Call or Copy for their programs.

John Rasnic, a Grace computer consultant, testified when deposed that he worked on Millennium software; that he made a copy of a portion of the Millennium source code disks; that clients (naming some) have sent Grace floppy disks with Millennium downloaded to Grace at offsite locations. Rasnic also admitted to physically downloading pieces of Millennium's source code from customers' mainframes at the customers' premises and then taking with him the floppy disks containing downloaded Millennium source code when he left the premises. He also acknowledged transferring those disks loaded with Millennium source code onto a personal computer at his Illinois offices, which are not physically located on the customer premises. The computer, Rasnic

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[8] The Copyright Act defines a derivative work as:

> a work based upon one or more preexisting works, such as a translation . . . condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modification which, as a whole, represent an original work of authorship, is a "derivative work."

Id. § 101.

testified, can then make, at his direction, copies on the hard drive of what was on the floppy disk.

During his service with Grace, Rasnic performed this operation at this office "once a quarter to twice a week." A copy of the Millennium source code has remained in his personal computer on its hard drive for four to five weeks. At the time he was deposed, he stated that he had copies of the Millennium source code on his hard drive for the purpose of "doing a modification for Food Line [a customer] of that program." He also stated that he has modified the source code at his Illinois office for other "Grace clients only." Generally, the kinds of work he performed for the customers were telephone support, problem resolution, upgrades and modifications, and interfaces.

The License Agreements provide that third parties, including customer consultants, may have access to confidential information, including the Millennium program, upon execution of a non-disclosure agreement acceptable to [Geac] prior to disclosure. Although Grace asserts that every one of its consultants signed a non-disclosure agreement when they worked on DBS software, we can find none of record except the Hutto document. Grace fails to point to any evidence of non-disclosure agreements signed by it or its employees with any of its customers; it claims a blanket authorization under the "Hutto-VA" agreement permitting access to Millennium.

Hutto, a vice-president of Dun and Bradstreet, executed a non-disclosure document in 1993. The document fails to state the name of any customer for whom the services were to be performed. It is silent as to the duration of the period of service. Geac claims that this "Hutto" agreement applied only to the University of Virginia for

whom Grace proposed to do maintenance work and was not a general authorization. Grace argues that "Hutto testified that the agreement was not limited to any one licensee and was satisfactory for any licensee." This argument, however, is a distortion of what Hutto stated. He testified that the agreement was satisfactory "as it related to the [University of Virginia]." The trial court ruled against Grace's claim of blanket authorization stating that "there is not a sufficient quantum of proof to establish that we have a contract . . . understood by both sides, and the same way." The court, therefore, would not permit this document to go to the jury. Grace has appealed this ruling.

Hutto testified the agreement was only intended "for the particular customer" with whom they were dealing at the time, the University of Virginia. He never intended it to be a blank non-disclosure agreement with third-party consultants. Moreover, there was no discussion by him with Grace's representative that the agreement include others than the University of Virginia. In addition, it is unrefuted that he had "no authority" to enter into a blanket non-disclosure agreement. Although he further testified that an agreement containing similar language would have been satisfactory with respect to other customers, he did not testify, as Grace would have this Court believe, that "the agreement was not limited to any one licensee." The other evidence, particularly the use of the plural in the word "licensees" and the letter of Grace's counsel to Hutto, is of very little probative value. Reference to the plural in "licensees" in the agreement is indeed a slender reed on which to cling. We see no error in the District Court's conclusion that "there's not a requisite

quantum of evidence that the contract entered into between the parties had a meeting of the mind."

The defendants offer an additional pellet in defense of their consulting and maintenance operation. They claim that their offsite activities in copying the source code and other elements of the program were justified by industry custom and practice.

Grace emphasizes that it was industry practice to allow programs off-site and that customers required such off-site work, especially in emergency situations. Furthermore, it asserts that Section 16 of the License Agreement allows off-site activities, and that the provisions of the License Agreement "demonstrate that it does not preclude off site work." It maintains that its off-site activities are limited to reviewing the program to understand it so that necessary fixes can be made to the software in the customer's mainframe computer. It contends that this section "makes clear that such activities are allowed." A defense of industry custom and practice in the face of the protective provisions of the Copyright Act could undermine the purposes and objectives of the statute and reduce it to rubble.

Grace may not stultify itself by seeking shelter within selected terms of the License Agreements at one time and then, when it serves its convenience, disregard the conditions and other pertinent terms of the Agreements. Custom and practice in the computer industry, and the evidence of it in this record is vague and conclusory, is no authority to disregard or trump the specific terms of a valid license agreement or the provisions of the Copyright Act. "Custom and usage may not be invoked to relieve defendant of the clear cut obligations imposed by the

application of the statute." *Famous Music Corp. v. Seeco Records, Inc.,* 201 F. Supp. 560, 566 (S.D. N.Y. 1961) Extrinsic evidence may not be used to nullify or modify the terms of a valid, unambiguous license agreement. *See Atlantic Northern Airlines v. Schwimmer,* 12 N.J. 293, 96 A.2d 652, 656 (N.J. 1953). "Extrinsic evidence . . . may not be used to create an ambiguity where none exists." *International Union v. Skinner Engine Co.,* 188 F.3d 130, 145 (3d Cir. 1999).

As previously noted, the Copyright Act gives the copyright owner the exclusive right to prepare derivative works based on the copyrighted work. 17 U.S. § 106. The District Court correctly defined a derivative work to the jury as "a new created work based on the original copyright work."[9] Grace's W-2 program using Copy and Call commands copies Geac's computer copyrighted code. Thus, it is a derivative work; the inclusion of the Copy and Call commands makes Grace's W-2 programs infringing, derivative works of Geac's copyrighted software.

Grace attempts to brace its argument of industry practice to use these commands to retrieve data for maintenance work by arguing that the copy command does not modify the code. It also argues that the Copy and Call commands are used to access customer's data, which belongs to the customer and is not protected.

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[9] Under the Copyright Code, 17 U.S.C.§ 101, a derivative work is work "based upon one or more preexisting works" and includes any recasting, transforming or adopting of the original work. *Whelan,* 797 F.2d at 1239.

Section 2 of the M&D License Agreement provides in relevant part that the customer is authorized to use "the system solely for its own internal operation ... within Customer's data center at the location designated on the Customer and Product Information Schedule, at any other site which may replace it as provided in this section, or through a service bureau upon written prior approval of M&D." Paragraph 3 of that section permits use of the system in a remote job entry mode for the benefit of the customer and its subsidiaries provided that all processing involving use of any Licensed Program takes place only at the designated site or its temporary replacement."

The limitation of the license authorization to the customer's site and for its own internal operation is plain; use elsewhere may be permissible but with written prior approval of the licensor. Neither License Agreement permitted customer off-site use of the Geac code except with its prior approval. The License Agreement also forbade the distribution of modified versions of the Geac code. Section 16 of the agreement relied on by Grace is not inconsistent. It allows system copying, in whole or in part "for use by Customer at the designated site" and then under specific conditions and purposes set forth in that section. Such copying as is permitted at the site is only for purposes of "understanding the contents of such machine readable materials." The interpretation of a written unambiguous agreement traditionally is a matter of law, not a question of fact for a jury. *Church v. General Motors Corp.*, 74 F.3d 795, 799 (7th Cir. 1996); *see also Winter v. Minnesota Mut. Life Ins. Co.*, 199 F.3d 399, 406 (7th Cir. 1999). We therefore hold that the terms and conditions of the License Agreements may not be altered or modified by

extrinsic incidence of purported industry custom and usage.

D. GRACE'S W-2 PROGRAM

We turn now to Geac's third claim – Grace's use of Copy and Call commands to Geac's W-2 program. Grace contends that the Call and Copy commands are used to access customer's data, that such data belongs to the customer, and is not protectable. It asserts the Copy command does not modify the code and that industry practice uses the commands "to interoperate two systems;"[10] the Copy command does not insert text from one program into another; their program remains separate in memory. Grace admitted that the installation, testing, compiling and link editing of its W-2 programs required copying Geac's software and link editing the Geac code. Geac therefore argues that these trial admissions compel the conclusion that, "as a matter of Law," Grace's W-2 programs are infringing because they contain copies of Geac's copyright code and are derivative works of Millennium. We agree.

Citing to *Walker v. University Books,* 602 F.2d 859, 864 (9th Cir. 1979), Geac further asserts that the Copyright Act does not allow an infringer to avoid liability by distributing instructions which result in copying. The Act gives a copyright owner the exclusive right to "prepare

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[10] Defendant Grace asserts in Geac's brief filed at trial dated April 19, 2000, it conceded "that whether the call and copy" commands infringe is an issue to be decided by the jury. We can find no such concession in the record to which it refers.

derivative works based upon the copyrighted work." 17 U.S.C. § 106. The Act also defines a "derivative work" as "a work based upon one or more pre-existing works [including] any other form in which a work may be recast, transformed or adapted." 17 U.S.C. § 101. Furthermore, the DBS License Agreement prohibits anyone from modifying the Millennium software code without Geac's authorization. The M&D License Agreement permits a third party consultant, in certain instances, to modify the Geac code, but only if it satisfies the agreement's non-disclosure and work-for-hire requirements for accessing the Geac code. Grace did not meet the License Agreements and non-disclosure requirements. Thus, Geac posits that this results in literal copy and modification of Geac's W-2 program that constitutes a derivative work of the copied and called programs and code.

We turn to Grace's defense that its CNR W-2 program and the DBS Millennium W-2 programs are not similar and Grace, therefore, does not infringe on Geac's copyright. Grace makes much of the government form that both generate for their customers and that this is a government form unprotected under copyright law. Of course, it is unprotected, and is not an issue. However, there is no claim that the other material in the PAYTXABR package is not copyrighted property.

Grace also leans on Dr. Dewar's testimony to support its argument that the two programs are dissimilar. Dr. Dewar found similarities in the two programs at the upper level but found them different at the lower levels.[11] No

[11] For descriptions of "upper" and "lower" levels, see p.6, n.2, *supra*.

further explanation is offered by Dr. Dewar as to what are the differences, except for a vague reference to Grace's "extraction program."

The source code which speaks in human language, and is critical, is at the upper level. This infringement may not be justified on the ground that not all elements of the system were copied or that there were some dissimilarities. Grace may have rearranged some of the words in the plagiarizing program or altered or replaced one or more components in its program, but these efforts to distinguish its program from Geac's system does not erase the literal copying of Geac's source code; it does not surmount Reynolds' acknowledgment that "I could not have written the W-2 program without making either copies or calls to Dun & Bradstreet copy members or source code."

We had occasion in one of our early cases dealing with substantial similarity wherein the defendant's premise was that one cannot prove substantial similarity without comparing the entirety or a greater part of the work. We concluded that not in every area of copyright infringement is there a general requirement "that most of each of two works be compared before a court can conclude that they are substantially similar." *Whelan,* 797 F.2d at 1245. The source code and the object code are the literal elements of a computer program and are protected by copyright law. *Apple Computer, Inc. v. Franklin Computer Corp.,* 714 F.2d 1240, 1249 (3d Cir. 1983); *Cognotec Services v. Morgan Guar. of New York,* 862 F. Supp. 45, (S.D. N.Y. 1994).

Dr. Dewar conceded that Grace made copies of Geac's code by its Call commands to Geac's software when Grace compiled it W-2 program. He testified that so long as Geac's licensees used Grace's program, the copying

through the Copy and Call commands is non-infringing because the licensee had authority to access. This is sophistry with which we do not agree. Authority to the licensee to access both programs does not give Grace the right to copy and call Geac's copyrighted property for its own commercial and competitive purposes. As we have already explained, this infringement cannot be excused by purported industry practice. Having copied the critical source code, it is no defense to infringement that more of the system was not copied or that the plagiarist's system may have some dissimilarities from the original system.

Turning to its last defense, Grace relies on *Computer Associates International, Inc. v. Altai, Inc.*, 982 F.2d 693 (2d Cir. 1992) and *Mitel, Inc. v. Iqtel, Inc.*, 124 F.3d 1366 (10th Cir. 1997). This defense to the use of the Copy and Call command in Grace's W-2 program is predicated on the doctrine of externalities, often referred to in a non-computer literary setting as *scenes a faire*.

The Court of Appeals explained in *Gates Rubber Co.* that under this doctrine, copyright protection is denied "to those expressions that are standard, stock, or common to a particular topic or that necessarily follow from a common theme or setting." *Bando Chemical Industries, Ltd.*, 9 F.3d at 838. As related to computer programs, the Court of Appeals for the Second Circuit in *Altai* recognized that "in many instances it is virtually impossible to write a program to perform particular functions in a specific computing environment without employing standard techniques." 982 F.2d at 709 (quoting 3 Nimmer § 13.03[F][3], at 13-65). That is because "a programer's freedom of design choice is often circumscribed by extrinsic considerations such as (1) the mechanical specifications of the computer on which a particular program is intended to run; (2) compatibility

requirements of other programs with which a program is designed to operate in conjunction; (3) computer manufacturers' design standards; (4) demands of the industry being serviced; and (5) widely accepted programming practices within the computer industry." 982 F.2d at 709-10; *see also Mitel,* 124 F.3d at 1375. Thus, for these reasons certain content of the allegedly infringed program that might have been dictated by external factors may not be subject to copyright protection. *Altai,* 982 F.2d at 710; *Gates Rubber,* 9 F.3d at 838.

The Court in *Mitel* agreed, stating that the "traditional copyright doctrine [of scenes a faire has been extended] to exclude from protection against infringement those elements of a work that necessarily results from external factors inherent in the subject matter of the work." *Mitel,* 124 F.3d at 1375. The rationale is rather straightforward: Because those external factors dictated the creation of the allegedly infringed work, "it is lacking the originality that is the *sine qua non* for copyright protection." *Gates Rubber,* 9 F.3d at 838 (citing *Publ'n, Inc. v. Rural Tel. Serv. Co.,* 499 U.S. 340, 348, 113 L. Ed. 2d 358, 111 S. Ct. 1282 (1991)).

Both *Altai* and *Mitel* clearly held that in determining aspects of the program not entitled to protection because of external factors, we examine the program from the viewpoint of *the creator. Altai,* 982 F.2d at 714; *Mitel,* 124 F.3d at 1375. The *Mitel* court pointedly noted that the focus is on the factual circumstances and the external factors surrounding the author of the infringed program. *Mitel,* 124 F.3d at 1375; *see also Control Data Sys., Inc. v. Infoware, Inc.,* 903 F. Supp. 1316, 1323 (D. Minn. 1995) ("The question to be examined is whether external factors limited the choices available to the [allegedly infringed]

programmers, not whether external factors may somehow limit the choices of [the alleged infringing work's] programmers.").

Dr. Dewar made it clear that he was advancing his own theory, explaining: "So my understanding of the process of determining for myself whether I consider something infringement, is that if something is dictated by the requirement of intraoperability, then that is an external factor that is not protectable." Explaining further, he testified:

> [I]n modern computing, the notion of intraoperability is fundamental. And the idea of writing programs which are designed to work with licensed copies of other programs, a fundamental part of computing, one of which everyone has a PC, [is] taking advantage of.

And consequently it is exactly expected to, according to industry standard and practice relating to intraoperability, you will find two programs to design, to work and to interoperate, and in the same manner will have the same calls.

Dewar's testimony regarding external factors, including interoperability, is wholly misplaced. As Dewar admitted on cross-examination, he focused on externality from the viewpoint of Grace's W-2 program, not Geac's. He looked at externalities from the eyes of the plagiarist, not the eyes of the program's creator. As explained, in determining whether certain aspects of an allegedly infringed software are not protected by copyright law, the focus is on external factors that influenced the choice of the creator of the infringed product. *Altai,* 982 F.2d at 714; *Mitel,* 124 F.3d at 1375. What is telling is that Grace makes no effort

to explain this fundamental error on the part of Dewar except to urge that "external factors" and "interoperability" "are important concepts in proving that no infringement occurred." Furthermore, Dewar here simply offered no testimony regarding what parts of Geac's program were dictated by external factors and therefore not protected.

He therefore concluded: "My opinion, there's no infringement." His explanation ignores completely that Geac's Millennium program was designed and developed not for the purpose of working with personal computers but solely for business customers' specific human resource problems. Under his theory, the Copyright Act is superfluous and the License Agreements become a bundle of straw.

Dewar's explanation of the need to interoperate two programs, and industry practice and custom, do not justify unauthorized accessing and copying Geac's copyrighted code. The Court in *Mitel* specifically rejected the analysis of the district court in that case which focused on whether external factors such as market forces and efficiency considerations justified the copying. *Mitel,* 124 F.3d at 1375; *see also Apple Computer, Inc. v. Franklin Computer Corp.,* 714 F.2d 1240, 1253 (3d Cir. 1983) (stating that achieving total computability with independently developed application program . . . is a commercial and competitive objective which does not enter into the somewhat metaphysical issue of whether particular ideas and expressions have merged). We also reject the doctrine of externalities, including interoperability, as justification for using the Copy and Call commands to access Geac's copyrighted software in violation of the License Agreements and the Copyright Code.

E. CONCLUSION

In conclusion, the interpretation of the License Agreements was a question of law and not of fact. The defenses raised by the defendants were unacceptable as a matter of law. Drawing all reasonable and logical inferences in the non-movant's favor, we nevertheless must reverse the Order of the District Court denying Geac judgment as a matter of law on its copyright infringement claims. Upon our review of the record, it is evident that the verdict is not supported by legally sufficient evidence. In light of our decision on the motion for judgment as a matter of law, we do not reach the alternative issues relating to the motion for a new trial.

III.

MISAPPROPRIATION OF TRADE SECRETS

Geac also pled a state claim for misappropriation of trade secrets claim with respect to Grace's use of Millennium software. Geac argued that Grace breached multiple duties of confidentiality in creating and distributing its W-2 program and other derivative works. The District Court granted Grace's motion for summary judgment because it held that Geac's claim was preempted by § 301 of the Copyright Act, 17 U.S.C. § 301.

Our review of the District Court's grant of summary judgment is plenary; we apply the same test as the District Court should have applied initially. *Olson v. General Elec. Astrospace,* 101 F.3d 947, 951 (3d Cir. 1996). Our review is de novo as to the question of law whether § 301 preempts a state cause of action for misappropriation of trade secrets. *Trandes Corp. v. Guy F. Atkinson Co.,* 996 F.2d 655, 658 (4th Cir. 1993).

Section 301(a) of the Copyright Act provides that:

> all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103 . . . are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.

17 U.S.C. § 301(a). However, subsection b(1) makes explicit what is implicit in subsection (a) that the preemption provision does not apply if the "subject matter[ ] does not come within the subject matter of copyright as specified by sections 102 and 103." 17 U.S.C. § 301(b)(1).

Subsection 301(b)(3) imposes another limitation that is principally at issue here. It provides that "[n]othing in this title annuls or limits any rights or remedies under the common law or statutes of any State with respect to activities violating legal or equitable rights that are not equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106." 17 U.S.C. § 301(b)(3). As already noted previously, section 106 gives, subject to certain limitations, the owner of a copyright the exclusive rights to do and to authorize among other things the reproduction of the copyrighted material, the preparation of derivative works, and the distribution of copies. 17 U.S.C. § 106.

As the District Court acknowledged, this Circuit has not yet addressed the effect of § 301 on the preemption of state misappropriation of trade secrets claims. Although we have not addressed the issue, we are not without

guidance or a framework. The Congressional House Judiciary Committee Note accompanying § 301 clearly states that the intent of § 301 "is to preempt and abolish any rights under the common law or statutes of a State that are equivalent to copyright." House Report No. 94-1476. The note stated, however, that certain common law rights "would remain unaffected as long as the causes of action contain elements, such as invasion of personal rights or a breach of trust or confidentiality, that are different in kind from copyright infringement." *Id.* More specifically and most relevant to our issue, the Committee noted that misappropriation type claims are not necessarily synonymous with copyright infringements. *Id.* Therefore, misappropriation causes of action are not preempted if they are based on claims not equivalent to the exclusive rights within the general scope of the Copyright Act. *Id.*

Less clear is what types of misappropriation claims are not preempted and are not within the general scope of the Act. The House version of § 301, which Congress adopted, deleted the Senate version of § 301(b)(3) that had enumerated certain types of misappropriation claims that would not be preempted. *Conference Comm. Notes*, House Conference Report No. 94-1733. However, as the District Court acknowledged, because any direct reference was deleted to acts of misappropriation, federal courts have grappled with whether a particular cause of action and, more specifically, a particular type of misappropriation is preempted under "any of the exclusive rights within the general scope of copyright as specified by § 106."

Courts, as the Court of Appeals for the First Circuit acknowledged, have developed a "functional test" to determine the question of equivalence. *Data General Corp. v. Grumman Systems Support Corp.*, 36 F.3d 1147, 1164

(1st Cir. 1994). There, the court held that "if a state cause of action requires an extra element, beyond mere copying, preparation of derivative works, performance, distribution or display, then the state cause of action is qualitatively different from, and not subsumed within, a copyright infringement claim and federal law will not preempt the state action." *Data Gen. Corp.*, 36 F.3d at 1164 (quoting *Gates Rubber*, 9 F.3d at 846-47); *see also Trandes Corp.*, 996 F.2d at 659 ("To avoid preemption, a cause of action defined by state law must incorporate elements beyond those necessary to prove copyright infringement, and must regulate conduct qualitatively different from the conduct governed by copyright law."); *Altai*, 982 F.2d at 716 ("[i]f an 'extra element' is 'required instead of or in addition to the acts of reproduction, performance, distribution or display, in order to constitute a state-created cause of action, then the right does not lie 'within the general scope of copyright,' and there is no preemption.") (citation omitted). This test has been labeled the "extra element" test. *Trandes Corp.*, 996 F.2d at 659.

Not every extra element is sufficient to establish a qualitative variance between rights protected by federal copyright law and that by state law. *Data Gen. Corp.*, 36 F.3d at 1164-65; *Altai*, 982 F.2d at 717. A state law misappropriation of trade secrets claim that requires a proof of breach of duty of trust or confidence to the plaintiff through the improper disclosure of confidential materials is qualitatively different because it is not an element of copyright infringement. The breach of duty or trust represents unfair competitive conduct "qualitatively different from mere unauthorized copying." *Data Gen. Corp.*, 36 F.3d at 1165. Thus, it has been held that trade secrets claim based upon a breach of duty provides the extra

element avoiding preemption. *Altai,* 982 F.2d at 717 ("[t]he defendant's breach of duty is the gravaman of such trade secret claims, and supplies the 'extra element' that qualitatively distinguishes such trade secret causes of action from claims for copyright infringement that are based solely upon copying."); *Trandes Corp.,* 996 F.2d at 660 (agreeing "that the breach of a duty of trust or confidentiality comprises the core of action for trade secret misappropriation" qualitatively distinguishing it from copyright infringement); *see also Gates Rubber,* 9 F.3d at 847-48 (same).

Geac argues that "the district court erroneously concluded that Geac's software ... claims were based simply on the use and copying of the software, rather than Grace's breach of its duties to keep Geac's software and client list confidential." The extra element, it argues, precludes preemption. We agree with Geac that if their misappropriation of trade secrets claim was based on such breach of duty of trust and confidentiality, it would survive preemption in this case. Thus, if an employee of Geac who, by virtue of a confidential position, had access to the source code, misappropriated it, and used it to promote his own interests, such breach of confidentiality would be the extra element to a copyright infringement claim. The claim, therefore, would not be preempted by the Act. *See Gates Rubber Co. v. Bando Chem. Indus.,* 9 F.3d 823, 847-48 (10th Cir. 1993) (copyright claim for wrongful use of a computer program does not preempt trade secret claim for misappropriation where defendant gained access to the program through plaintiff's employee who breached his duty to maintain secrecy).

Geac also argues that the District Court did not address Geac's misappropriation of trade secrets claim

with respect to its customer lists. Because customer lists are not subject to copyright, it argues, it cannot pursuant to § 301(b)(1) be preempted. Grace does not dispute that the customer lists are not subject to copyright and presumably escape preemption for that reason pursuant to § 301(b)(1). Further, it does not contest that customer lists could constitute valid trade secrets. *See Lamorte Burns & Co. v. Walters,* 167 N.J. 285, 770 A.2d 1158, 1166 (N.J. 2001) ("In New Jersey, customer lists of service business have been afforded protection as trade secrets.").

Under Rule 56(c) of the Federal Rules of Civil Procedure, summary judgment on an issue is appropriate only if the affidavits, depositions, and other evidence submitted in connection with the motion for summary judgment demonstrate that "there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." *See Seibert v. Nusbaum, Stein, Goldstein, Bronstein & Compeau, P.A.,* 167 F.3d 166, 170 (3d Cir. 1999). The court must "construe the facts in the light most favorable to the non-moving party." *Seitzinger v. Reading Hosp. and Med. Ctr.,* 165 F.3d 236, 238 (3d Cir. 1999).

In entering summary judgment, the District Court failed to consider evidence that Geac's customer lists were not copyrightable material and, therefore, that claims alleging a violation of state laws were not preempted. *See Feist Publications, Inc. v. Rural Tel. Service Co.,* 499 U.S. 340, 347, 113 L. Ed. 2d 358, 111 S. Ct. 1282 (1991) (data or facts "do not trigger copyright" because they are not original in the constitutional sense). Therefore, the claims that Grace misappropriated Geac's client lists were not preempted and the District Court as a matter of law should not have dismissed them.

With respect to Geac's software claims and the evidence in their support, the District Court concluded that they were based only on the use and copying of software and the codes. The court failed to consider evidence of the alleged breach of Grace's duties to maintain the confidentiality of Geac's software and customer lists. These trade secret claims were qualitatively different from the rights protected by the Copyright Act because Grace's evidence of breach of confidentiality constituted the extra element necessary to avoid preemption.

Geac introduced evidence to the District Court that Grace was bound by express promises of confidentiality with respect to the software and customer list because, as a third party consultant, it had assumed an obligation of confidentiality under its own standard agreement with its customers. Furthermore, there is evidence that Grace employed former employees, and contracted with Reynolds, who owed obligations of confidentiality to Geac, to develop W-2 programs and provide maintenance service in behalf of Grace. Geac also produced evidence that Grace used improper means to acquire Geac's trade secrets by inducing Geac's licensees to divulge trade secrets under the false representation to them that the Hutto-VA agreement authorized Grace to act generally as a third party consultant; that on the basis of this false representation, Geac's licensees allowed Grace to service their copies of the Millennium program without Geac's knowledge or consent.

Grace disputes that Geac produces any evidence to support "a true trade secret claim." Grace argues that Geac did not make reasonable efforts to retain the trade secrecy of their customer lists and that there was no evidence of misappropriation. Geac admits that its customer lists were distributed to participants at its user

conferences but contends that parties had to sign a confidentiality agreement. Because of the error of law and disputed issues of material facts, the entry of partial summary judgment was improper and will be vacated. The issue of misappropriation of trade secrets, therefore, will be remanded to the District Court for further proceedings consistent with this opinion.

IV.

GRACE'S CROSS-APPEAL

Grace and Ilutzi have cross-appealed raising numerous issues. We conclude that each issue has no merit and therefore we discuss each item only briefly.

First, Grace claims that the District Court erred in dismissing the breach of contract counterclaim "without articulating any factual basis for its decision." We could not disagree more with Grace's characterization of the District Court's decision. The court was quite clear when it stated that there is not "sufficient quantum of proof to establish that we have a contract." The contract claim was based on the "Hutto-VA" Agreement. As we have discussed above, the District Court found this agreement invalid and that it contained no blanket authority for Grace to serve all of Geac's customers without appropriate, individual, non-disclosure agreement. We see no error.

Even if there was a meeting of the minds, we conclude that the "Hutto-VA" Agreement is still not an enforceable contract because of lack of adequate consideration. Although Grace agreed not to disclose "proprietary or confidential information," there is no indication of what Geac promised in return or what Grace bargained for in return of its promise. Without any reference to the record for

evidentiary support, Grace argues that Geac promised "that it would have no infringement claim against Grace if it complied with this agreement." However, the plain language of the agreement is silent as to any such promise.

For similar reasons, we reject Grace's promissory estoppel claim because it has failed to identify any clear or definite promise upon which it reasonably relied. We do not reach the merits, however, because we conclude that Grace waived it by not asserting it before the District Court. *United Parcel Serv., Inc. v. Int'l. Bhd. of Teamsters, Chauffeurs, Warehousemen & Helpers of Am., Local Union No. 430,* 55 F.3d 138, 140 n.5 (3d Cir. 1995) ("It is the general rule that issues raised for the first time at the appellate level will not be reviewed.").

Second, Grace had pled a tortious interference counterclaim alleging that Geac's conduct damaged it economically with third parties. More specifically, as the Magistrate Judge also noted, the essence of the claim here is the alleged tortious conduct of Geac's General Counsel James Alberg and certain letters he sent to the licensees. Grace assigned two errors to the District Court in dismissing this claim. The District Court dismissed the claim because Grace failed to produce sufficient evidence to prove that any third parties acted on a letter sent by Alberg. This was not erroneous. *FDIC v. Bathgate,* 27 F.3d 850, 871-72 (3d Cir. 1994) ("Under New Jersey law [one of] the five elements of a claim of tortious interference with a prospective or existing economic relationship [is] the reasonable probability that plaintiff would have received the anticipated economic benefit in the absence of interference.") (citations omitted). The basis of the District Court's dismissal was therefore the failure by Grace to

produce sufficient evidence as to causation. Thus, Grace's complaint on not having been provided an opportunity to prove damages because the case was bifurcated is irrelevant. There is no need to address whether the tortious interference claim fails to satisfy the other elements of the cause of action.

Grace's other claim of error on the tortious interference claim is equally unconvincing. It complains that the Magistrate Judge erroneously limited discovery, prejudicing its ability to present this claim. Were we to reach the merits, we would not agree. Grace was provided access to Geac's documents of seventy of its licensees to whom Grace provided maintenance services. If Grace needed to contact other licensees to determine what effect letters sent by Alberg had on their decision making processes, they could have turned to their own customer lists. We see no error or prejudice warranting reversal. Moreover, we conclude that Grace waived the right to complain of the Magistrate Judge's alleged limited discovery order by failing to appeal it to the District Court. *United Steelworkers of Am., AFL-CIO v. New Jersey Zinc Co.*, 828 F.2d 1001, 1006 (3d Cir. 1987) ("Congress intended that review of a magistrate's decision on a nondispositive pretrial matter must, initially, be had in the district court.") (quoting *Siers v. Morrash*, 700 F.2d 113, 114-15 (3d Cir. 1983)); *id.* at 1008 ("[T]his court has consistently held that it will not, absent extraordinary circumstances, address on appeal issues not originally presented to the district court.").

Third, Ilutzi argues that the District Court's refusal to allow the jury to consider evidence of copyright misuse as a defense to any possible infringing activity was erroneous. Ilutzi contends that Geac "sought to use its copyright to take and retain control over an entirely different market than

that covered by copyright (in seeking) to control services and maintenance with respect to its software." Because the District Court found that this defense suffered from the same infirmity as the contract and tortious interference counterclaim, it struck the defense. This Court has not yet addressed the legal viability of the copyright misuse as a defense. We reserve consideration of this issue for another case. Even if we were to adopt copyright misuse as a defense as laid out in *Lasercomb America, Inc. v. Reynolds,* 911 F.2d 970, 972-77 (4th Cir. 1990), we agree with the District Court that the record is simply devoid of any evidence of misuse by Geac. As we have discussed at length in our discussion of the motion denying judgment as a matter of law, Geac's Licensing Agreements with its clients specifically allow for third party maintenance provided the third party signs non-disclosure agreements acceptable to Geac and complies with other conditions contained therein.

Finally, both Grace and Ilutzi vehemently contend that the District Court abused its discretion in denying them, as the prevailing party in the copyright infringement action, attorney's fees pursuant to 17 U.S.C. § 505. In light of our disposition of this appeal and cross-appeal, we conclude that the issue is moot and do not address it.

Lastly, Ilutzi submits that Geac has abandoned claims against him because he is not named or listed in Geac's opening brief. We find this argument to border on the frivolous. In no uncertain terms, Geac noted in its opening brief that references to Grace include all the defendants, appellees, and cross-appellants. Furthermore, Geac's notice of appeal was from the June 6, 2000, judgment of no action entered in favor of both Grace and Ilutzi. Thus, both parties are properly before this Court as appellees.

V.

CONCLUSION

In summary, we hold that the District Court erred in denying Geac's motion for judgment as a matter of law. The District Court's judgment rejecting Geac's claim for misappropriation of trade secrets will be vacated. The District Court's order dismissing defendant's counterclaims will be affirmed. In light of our decision on the motion for judgment as a matter of law, there is no need to reach Geac's motion for new trial and the alleged evidentiary and jury instruction errors. Grace's motion for attorney's fees will be denied as moot. The case will be remanded to the District Court with direction to enter an order vacating the judgments entered in favor of the defendants and for such further proceedings as are consistent with this opinion. Costs taxed against the defendants-appellees.

IN THE UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

Nos. 00-2772 and 00-2932

DUN & BRADSTREET SOFTWARE SERVICES, INC.; GEAC COMPUTER SYSTEMS, INC.

v.

GRACE CONSULTING INC; GRACE MAINTENANCE INT.; ANTHONY ILUTZI

GEAC ENTERPRISE SOLUTIONS, INC.
f/k/a
GEAC COMPUTER SYSTEMS, INC.,

Appellants No. 00-2772

DUN & BRADSTREET SOFTWARE SERVICE, INC.; GEAC COMPUTER SYSTEMS

v.

GRACE CONSUL INC; GRACE MAINTENANCE; ANTHONY ILUTZI,

Appellants No. 00-2932

Appeal from the United States District Court
For the District of New Jersey
D.C. Nos.: 94-cv-01090
District Judge: Honorable Katharine S. Hayden

Argued January 17, 2002

Before: SCIRICA, ROSENN, Circuit Judges, and KANE,* District Judge.

JUDGMENT

This cause came to be heard on the record from the United States District Court for the Eastern District of Pennsylvania and was argued on January 17, 2002.

On consideration whereof, it is now here ORDERED AND ADJUDGED by this Court as follows:

1. The District Court's order denying Geac's motion for judgment as a matter of law will be vacated; Geac's appeal from the order denying its motion for new trial will be denied as moot;

2. The District Court's order granting Grace's motion for partial summary judgment on Geac's claim for misappropriation of trade secrets will be vacated and this issue remanded to the District Court for further proceedings consistent with this opinion;

3. The District Court's order dismissing Grace's counterclaims for breach of contract and tortious interference will be affirmed;

4. Grace's appeal from the order denying attorney's fees will be dismissed as moot;

---

* Honorable Yvette Kane, United States District Court for the Middle District of Pennsylvania, Sitting by Designation

5. The case will be remanded to the District Court with directions to enter an order vacating the judgment entered in favor of defendants and to enter judgment for the plaintiffs on its copyright infringement claims and for such further proceedings as are consistent with this opinion.

Costs taxed against defendants-appellees. All of the above in accordance with the opinion of this Court.

ATTEST:

/s/ Kathleen Brouwer
Chief Deputy Clerk

Dated: September 24, 2002

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

No. 00-2772 & 00-2932

DUN & BRADSTREET SOFTWARE SERVICES, INC.;
GEAC COMPUTER SYSTEMS, INC.

v.

GRACE CONSULTING, INC.; GRACE
MAINTENANCE INT.; ANTHONY ILUTZI

Geac Enterprise Solutions, Inc.
f/k/a Geac Computer Systems, Inc.
Appellant at No. 00-2772

Grace Consulting, Inc.,
Grace Maintenance Int.,
Anthony Ilutzi,
Appellants at No. 00-2932

(D.C. Civ. No. 94-cv-01090)

SUR PETITION FOR REHEARING

Present: BECKER, Chief Judge,
SLOVITER, SCIRICA, NYGAARD, ROTH, McKEE,
RENDELL, BARRY, AMBRO, FUENTES, SMITH

and ROSENN*, Circuit Judges, and
KANE**, District Judge

The petition for rehearing filed by appellees/cross-appellants, Grace Consulting, Inc., Grace Maintenance Int., and Anthony Ilutzi, in the above-entitled case having been submitted to the judges who participated in the decision of this Court and to all the other available circuit judges of the circuit in regular active service, and no judge who concurred in the decision having asked for rehearing, and a majority of the circuit judges of the circuit in regular service not having voted for rehearing, the petition for rehearing by the panel and the Court en banc, is denied.

BY THE COURT,

/s/ Anthony J. Scirica
Circuit Judge

Dated: DEC 04 2002

NMB/cc: LHT, Esq.
HCK, Esq.
PJG, Esq.
AJK, Esq.
LTN, Esq.
RSK, Esq.

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* As to panel rehearing only.

** The Honorable Yvette Kane, United States District Judge for the Middle District of Pennsylvania, who sat by designation, as to panel rehearing only.

GEAC COMPUTER SYSTEMS, INC.

v.

GRACE CONSULTING, INC. ET AL

DOCKET NO.: 94-1090

VERDICT SHEET

(Filed Jun. 2, 2000)

On Plaintiff Geac Computer Systems, Inc.'s claim for copyright infringement against Defendants Grace Consulting, Inc., and Grace Maintenance Int., with respect to the creation, licensing or distribution of the CNR or GMI W-2 program, we, the jury, find for:

_____ Plaintiff Geac Computer Systems, Inc.

✓ Defendants Grace Consulting, Inc. and Grace Maintenance Int.

On Plaintiff Geac Computer Systems, Inc.'s claim for copyright infringement against Defendant Anthony Ilutzi, with respect to the creation, licensing or distribution of the CNR or GMI W-2 program, we, the jury, find for:

_____ Plaintiff Geac Computer Systems, Inc.

✓ Defendant Anthony Ilutzi

On Plaintiff Geac Computer Systems, Inc.'s claim for copyright infringement against Defendants Grace Consulting, Inc., and Grace Maintenance Int., with respect to maintenance services for the HR:M software, we, the jury, find for:

_____ Plaintiff Geac Computer Systems, Inc.

✓ Defendants Grace Consulting, Inc. and Grace Maintenance Int.

On Plaintiff Geac Computer Systems, Inc.'s claim for copyright infringement against Defendant Anthony Ilutzi, with respect to maintenance services for the HR:M software, we, the jury, find for:

_____ Plaintiff Geac Computer Systems, Inc.

__✓__ Defendant Anthony Ilutzi

On Plaintiff Geac Computer Systems, Inc.'s claim for copyright infringement against Defendants Grace Consulting, Inc., and Grace Maintenance Int., with respect to maintenance services for Millennium software products other than HR:M software, we, the jury, find for:

_____ Plaintiff Geac Computer Systems, Inc.

__✓__ Defendants Grace Consulting, Inc. and Grace Maintenance Int.

On Plaintiff Geac Computer Systems, Inc.'s claim for copyright infringement against Defendant Anthony Ilutzi, with respect to maintenance services for Millennium software products other than HR:M software, we, the jury, find for:

_____ Plaintiff Geac Computer Systems, Inc.

__✓__ Defendant Anthony Ilutzi

On Plaintiff Geac Computer Systems, Inc.'s claim for copyright infringement against Defendants Grace Consulting, Inc., and Grace Maintenance Int., with respect to consulting for the HR:M software, we, the jury, find for:

_____ Plaintiff Geac Computer Systems, Inc.

__✓__ Defendants Grace Consulting, Inc. and Grace Maintenance Int.

On Plaintiff Geac Computer Systems, Inc.'s claim for copyright infringement against Defendant Anthony Ilutzi, with respect to consulting for HR:M software, we, the jury, find for:

_____ Plaintiff Geac Computer Systems, Inc.

__✓__ Defendant Anthony Ilutzi

On Plaintiff Geac Computer Systems, Inc.'s claim for copyright infringement against Defendants Grace Consulting, Inc., and Grace Maintenance Int., with respect to consulting for the Millennium software products other than HR:M software, we, the jury, find for:

_____ Plaintiff Geac Computer Systems, Inc.

__✓__ Defendants Grace Consulting, Inc. and Grace Maintenance Int.

On Plaintiff Geac Computer Systems, Inc.'s claim for copyright infringement against Defendant Anthony Ilutzi, with respect to consulting for the Millennium software product other than HR:M software, we, the jury, find for:

_____ Plaintiff Geac Computer Systems, Inc.

__✓__ Defendant Anthony Ilutzi

On Plaintiff Geac Computer Systems, Inc.'s claim for copyright infringement against Defendants Grace Consulting, Inc., and Grace Maintenance Int., with respect to any other infringing acts not described above as to the HR:M software, we, the jury, find for:

_____ Plaintiff Geac Computer Systems, Inc.

__✓__ Defendants Grace Consulting, Inc. and Grace Maintenance Int.

On Plaintiff Geac Computer Systems, Inc.'s claim for copyright infringement against Defendant Anthony Ilutzi, with respect to any other infringing acts not described above as to the HR:M software, we, the jury, find for:

_____ Plaintiff Geac Computer Systems, Inc.

__✓__ Defendant Anthony Ilutzi

On Plaintiff Geac Computer Systems, Inc.'s claim for copyright infringement against Defendants Grace Consulting, Inc., and Grace Maintenance Int., with respect to any other infringing acts not described above as to Millennium software products other than the HR:M software, we, the jury, find for:

_____ Plaintiff Geac Computer Systems, Inc.

__✓__ Defendants Grace Consulting, Inc. and Grace Maintenance Int.

On Plaintiff Geac Computer Systems, Inc.'s claim for copyright infringement against Defendant Anthony Ilutzi, with respect to any other infringing acts not described above as to Millennium software product other than the HR:M software, we, the jury, find for:

_____ Plaintiff Geac Computer Systems, Inc.

__✓__ Defendant Anthony Ilutzi

DATED: 6/2/2000 /s/ [Illegible]
FOREPERSON

United States District Court

DISTRICT OF NEW JERSEY

GEAC COMPUTER SYSTEMS, INC.	JUDGMENT IN A CIVIL CASE
Plaintiff(s)	CASE NUMBER: 94-1090 (KSH)
v.	(Filed Jun. 6, 2000)
GRACE CONSULTING, INC., et al.	
Defendant(s)	

X **Jury Verdict.** This action came before the Court for a trial by jury. The issues have been tried and the jury has rendered its verdict.

___ **Decision by Court.** This action came to trial or hearing before the court. The issues have been tried or heard and a decision has been rendered.

IT IS ORDERED AND ADJUDGED

Judgment of no cause for action be entered in favor of defendants Grace Consulting, Inc. and Anthony Ilutzi.

DATED: 6/6/00 /s/ Katharine S. Hayden
Hon. Katharine S. Hayden, U.S.D.J.

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEW JERSEY
CIVIL NO. 94-01090

GEAC COMPUTER SYSTEMS SERVICES INC.,	:	
Plaintiff,	:	
vs.	:	
GRACE CONSULTING INC., GRACE MAINTENANCE INC., and ANTHONY ILUTZI,	:	
Defendants	:	MOTIONS

Newark, New Jersey
August 7, 2000 11:20 a.m.

BEFORE:

THE HONORABLE KATHARINE S. HAYDEN, U.S.D.J.

Appearances:

SALANS HERTZFELD HEILBRONN
CHRISTY & VIENER
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Millburn, New Jersey 07041

BY: LEONARD C. WALCZYK, ESQ.

Pursuant to Section 753 Title 28 United States Code, the following transcript is certified to be an accurate record as taken stenographically in the above entitled proceedings.

Ralph F. Florio
Official Court Reporter

GEAC ENTERPRISES SOLUTIONS
Attorneys for Geac Enterprise Solutions
68 Perimeter Center East
Atlanta, GA 30346-1805 USA
BY: JOHN T. TRENT, ESQ.

Also Present

Anthony Ilutzi

THE COURT: This is Geac. Good morning, gentlemen.

Let's put counsel's appearances on the record, please.

MR. MATUS: Wayne Matus, for the plaintiff, now newly named Geac Enterprise Solutions, Inc.

MR. GALLAGHER: Peter Gallagher, also for Geac Enterprises Solutions Inc.

MR. WALCZYK: Leonard Walczyk, Wasserman, Jurista & Stolz, on behalf of Grace Consulting Inc., doing business as Grace Maintenance Inc.

MR. ILUTZI: Anthony Ilutzi, I am representing myself pro se.

THE COURT: Okay. Before the Court are motions brought on the part of both sides to the trial that was held before me and concluded via a jury verdict on June 2. The motion brought on the part of Geac is for a judgment as a matter of law. Or in the alternative a new trial brought under Rule 50. And on behalf of the Grace defendants there was a motion for attorneys' fees, pursuant to Section 505 of the Copyright Act.

Each side affirmatively briefed the respective motions. There have been no replies filed because of intervening events that, Mr. Walczyk, you are the most familiar with, i.e. the Bankruptcy Petition that was filed in the Bankruptcy Court, I believe, on July 19?

MR. WALCZYK: That's correct, Your Honor. My office filed that on behalf of Grace.

THE COURT: Now I understand that the position taken on behalf of the Grace International is that, nothing can move ahead with respect to these motions under my watch because of the automatic stay provision; is that correct, Mr. Walczyk?

MR. WALCZYK: Your Honor, we believe that the automatic stay provisions of 11 U.S.C. Section 362(a) bar any action or continuation of action, against the debtor or against property of the debtor's bankruptcy estate. In this case Grace Consulting and Grace Maintenance is as a recognized business as a Grace Consultants.

THE COURT: How does that apply in this case, given the issue that was tried, i.e. a copyright infringement case and a verdict that there was no copyright infringement? And that I would consider to be a fairly important burden on the District Court to conclude the

entry of that judgment. And as it were to get out of the way of any Appeal or further activity with respect to the jury verdict.

I believe that I have a function to do something with this jury verdict, in fairness to jurors who worked on this. And I believe I have something important to do with respect to the plaintiff, who seeks at least a decision as to the propriety of that verdict from me as the Judge presiding over the trial.

MR. WALCZYK: I understand the Court's dilemma or duties as, if you will. To the extent that the Court is going to find or deny the plaintiff's motion, obviously we will have no objection. To the extent however, that the Court would consider, and perhaps affirmatively grant plaintiff's motion, then we have a situation where this debtor's sole or primary and most valuable asset, that is the business itself, what the debtor does, is rendered annulity [sic], if you will, and will negectively [sic] impact the debtor's ability to reorganize.

THE COURT: But isn't that the time to seek some guidance from the Bankruptcy Court as to the application of the automatic stay or alternatively, if Geac prevails in front of me, isn't it up to them to go to the Bankruptcy Court with that in hand and asking for the lifting of the automatic stay. In either event, would not the next step under those circumstances be to do something with the decision like that, as oppose to saying that the decision cannot be made one way or the other?

MR. WALCZYK: Your Honor, upon a filing of a Bankruptcy petition the automatic stay comes into play, it is an Act of Congress under Section 362. There's no need for an application for a court, in order to impose a stay.

THE COURT: As to an action that effects the debtor negectively [sic]. Not as a to an action that is, as I think you've just indicated, arguably beyond that scope, if in fact the Geac motion does not succeed.

MR. WALCZYK: Yes, Your Honor.

THE COURT: The only thing that would happen then that would be of any concern would be, if Geac pursued an appeal and then we begin the whole round all over again, but wouldn't be in front of me, correct?

MR. WALCZYK: I would concur with the Court, yes.

THE COURT: Now what is the story on your client's motion which Geac believes has been abandoned, which would certainly appears to have been abandoned and that is the motion for attorneys fees before this Court?

MR. WALCZYK: Your Honor, Well, I certainly [illegible]; I didn't file that motion, it was my predecessor counsel. I am the bankruptcy attorney. To the extent that the Court is considering Grace's motion for attorneys fees, we would rely on the papers. I am not here to give additional argument. I just don't have the background on the aspect of the case.

Your Honor, I will say though, that there was no withdrawal of that motion. That motion, to the extent that it is viable and something that the Court would consider, constitutes an asset to the tune of $1.6 million of the Grace bankruptcy estate. Needless to say, it was the burden of the litigation in terms of expense as well as time away from the time it took Mr. Ilutzi to dedicate to the litigation, that thrusted the [illegible] Grace into bankruptcy, into the Bankruptcy Court. So needless to say,

Your Honor, this is a most valuable asset of the Bankruptcy Court.

We thought as a matter of fairness, if weren't going to go forward with the plaintiff's motion this morning that we would come in with both guns blazing and saying, Judge, you wish to hear our motion and let you hear their motion too. We were perfectly willing to put it off to a later time. But to the extent that the Court is going to consider it this morning, nothing is withdrawn or abandoned and we'll rely on the papers.

THE COURT: That is a decision of Mr. Ilutzi, as well so far as you are representing yourself, Mr. Ilutzi?

MR. ILUTZI: Yes, it is Your Honor.

First off, we entered a motion for legal fees and then Mr. Nuara essentially did that without getting paid for that; it was never abandoned.

Secondly, again, part of the reason that I am here representing myself, is the fact that once the bankruptcy occurred I was a separate defendant on a matter and I let the court know. Certainly in regard to myself as an individual separately, I would have absolutely no problem with the Court dismissing the JLV against me any way. I think that there are factual grounds calling for that regardless of any papers filed.

Essentially Geac's motion to include me to go forward separately is against the interests of justice and certainly would severely prejudice me. But on a matter of law it is absolutely wrong, Judge.

At trial, Your Honor gave instructions to the jury that they could find myself as charged only if they found that I

knowingly participated, as an element in the copyright infringement. Gaec's papers refer to benefiting, which Your Honor had injected. At the time no objection was filed by Geac, so I would simply ask the Court to dismiss their motion with respect to me. And again, relying on at least bankruptcy attorney. Out of fairness, if the Court would want to stay the attorneys fees matter, that's fine with me, Your Honor.

THE COURT: And Mr. Matus or Mr. Gallagher, on behalf of Geac, what is Geac's position on the Court's ability to entertain both motions?

MR. MATUS: Yes.

THE COURT: Recognizing there's really a parity between the parties in terms of what has been filed. Each has filed a notice of motion and a supporting brief.

MR. MATUS: Well, I will note, Your Honor, in the first instance that we did file an opposition.

THE COURT: Yes, you filed an opposition to their motion, correct.

MR. MATUS: And I might note that the timing was most curious was we were notified of the bankruptcy filing about an hour after we had filed the papers.

Our position, Your Honor is that this Court is able to make a determination. You will not be one way or another affecting the assets of this debtor by a determination.

The determination of this Court is only going to set out exactly what the legal standards will be going forward

on this matter. Whether we are back at trial again. Whether we are the Appellant or Grace is the Appellant.

I don't think that in any way shape or form the estate itself, the debtor, is going to be adversely effected. I think that bankruptcy counsel accurately stated what the test is.

THE COURT: Thank you.

I have no authority before me which persuades me that I can't rule on the post trial motions. And thereby conclude with some finality the lawsuit that has taken place on the trial level. To do otherwise ignores some fairly fundamental and obvious facts.

The debtor named here is on a concrete basis only one of three defendants. The other two, Anthony Ilutzi was properly left in the trial as a defendant with personal liability on the Plaintiff's claims. And the other one Grace Maintenance National was never distinguished at trial as a nonentity.

Secondly, as I indicated earlier, plaintiff lost on its claims below by virtue of a jury verdict after a two month trial during which the economic viability of the defendants was never hinted at. I am not going to apply a stun gun to the verdict because I don't believe that the automatic stay provision is meant to accomplish such a result given the procedurally posture of this case.

I note as well, and Mr. Walczyk properly eluded to this, that the Grace defendants filed an affirmative motion for attorneys' fees and then filed the voluntary petition.

The voluntary petition indicates that professional and legal fees arising out of a litigation before me, those that are unpaid, a amount to far and away the biggest unsecured

claim, a total of $396,718. And that is [illegible] those are the obvious ones reading from the unsecured claims that are set forth on the voluntary petition.

This litigation at the point the voluntary petition was filed was not about the professionals' claims against the Grace defendants. The point of filing, it wasn't even about the amounts owed by the Grace defendants to Geac. Geac had lost the copyright claim and damages are not before me at the present time, nor have they ever been adjudicated. Theoretically, only if I were to rule in favor of Geac today is the contexts for which the automatic stay exists actually arise. Therefore, I believe it is entirely appropriate that I enter an order on the pending motions, to the extent that Grace that Geac has taken the position that the Grace defendants have abandoned their motion; I am going to address it, without agreeing or disagreeing in the interests of the briefs.

In terms of what is before me, I believe I certainly have enough. I have the moving papers of Geac. Which raise many of the issues that concern the Court and that were briefed and argued by the parties in the course of trial, before the trial, before the case went to the jury. With respect to the motion for attorneys' fees, as Mr. Matus reminded me, that is even more fully briefed in terms of the position of both sides. And to the extent that it is an issue that was not before the court previously, that is as it such be, because I have had the opportunity to do review both sides of the issue presented by the Grace defendants.

I see no reason why the Third Circuit decision in Lee versus Touchstone Industries Inc. sets forth the factors for a court to consider on such a motion, should not be the

guiding principles involved, and I will be deciding the motion based upon the principles and facts set forth in that case.

Moving to the motion filed by the plaintiff, I don't find necessarily that the motion papers which are as always well briefed and useful to the Court in understanding the issue espoused, actually confronts the specific issue that the jury decided head on, is what the Grace defendants were doing to the program that was licensed by Geac, copyright infringement under the copyright laws.

The jury choosing between two expert points of view said no. The evidence supporting this came on the behalf of the Grace defendants from Professor Dewar, who told the jurors that the call and copy commands were not infringing because they were part of the interoperability of the two programs GMI and Millium.

In its closing Geac presented the jurors with 20 examples of copying by the Grace defendants, which Geac argued supported its infringement claims. By this time the case had been, or the case of the jurors were going to be deciding had been significantly narrowed, because I had dismissed the counterclaims that the Grace defendants had asserted.

In the motions or in the motion before me now Geac argues, that the Grace defendant's attorneys impermissibly used arguments that my rulings on the counterclaims had concluded. But this position ignores some of the difficulties, inherent in Geac's copyright infringement claims, arising out of the conduct of the licensees, that substantial silent majority that were always here in the courtroom, but never formally here in the courtroom. That Geac chose not to sue, and the Grace defendants chose not

to sue, but who did business with the Grace defendants, so that they would not have to pay Geac's maintenance fees.

Further, in supporting its copyright claim and meeting its burden, Geac had to deal with the conduct of its own predecessor companies, in licensing a product that emphasized its adaptability to enhancements. And its increased flexibility over the former McCormick and Dodge software. While not clarifying for its own benefit how far the licensees would go on their own, in taking advantage of the fact that the source code could be modified. Muddling things further, is the existence of two licensing agreements which Geac had to defend or cope with.

Additionally, complicating the landscape is the fact that the maintenance of this technology, arguably somewhat of a dinosaur technology that would not die, as opposed to the upgrading and replacement of it, became the focus of Geac's revenues after it purchased the Millium and HR program.

At its most elemental, the parties dispute had as its focus as much licensing rights as it did copyright claims. And neither side, as I indicated chose to name the licensees their customers as defendants.

The jury verdict indicated that the defendants, Grace defendants position, that what the licensees and the Grace defendants were doing in maintaining the HR software, that is updating without buying Geac's maintenance services, was not a violation of Geac's copyright.

Geac is saying now, that the jury simply could not reach that conclusion on the evidence before it, in part because the jury should not have had evidence before it

that it did. Specifically or not specifically, there are many indications in the briefing, but surely Dewar's testimony is one that is in the forefront.

Stanley Kremen, Geac's expert, certainly had very different theories about the copy and call commands. I ruled that there was no per se bar to the jurors hearing from both experts' points of view, and I stand by that decision. I reject once again, Geac's position that only Kremen could be heard on this issue. Basically because one expert in an earlier case was accepted by a different Circuit, as providing theoretical framework that forecloses forever a contrary point of view. The fact is that the technology litigated in this case, getting the users access to source code is a selling point.

Grace defendants agreed, or argued to the jury successfully it seems, that they and the licensees, the users, did no more than access the code for the users' benefit at a lower cost to the users than Geac wanted them to pay and they did so without violating the copyright laws.

Geac tried to prove that this accessing violated copyright law and this jury rejected that position. If Geac lost because of trial rulings that I made that doomed its cause, perhaps fatally from the moment Mr. Matus made his opening statement, I leave that to the Third Circuit to determine.

If Geac lost on its copyright claims, because in the end the jury rejected Grace's activity as invading protectable rights of Geac, then that is the horse race that a jury trial is. To take at face value what Geac wants me to find now is essentially to say, that Geac's prevails as a matter of law and did prevail when they filed back in 1994 because of the essence of the activity of Grace defendants.

The Court ruling since then on that point are history and again may be examined by an Appellate review.

As a consequence I am denying the motion for judgment as a matter of law or in the alternative for a new trial.

With respect to the other applications before me, the attorney fee application. Grace defendants claim that they have prevailing party status under Section 505 and they want their legal fees paid. Such a ruling is an equitable position and an equitable position on my part and doesn't depend upon a mathematical or formulated approach. Rather as indicated in Lieb versus Touchstone Industries Inc. 788 F.2d 151 a decision of the Third Circuit 1986. There are several, "nonexclusive factors," that I could consider. One, is the copyright claim frivolous. Two, is the copyright claim objectively reasonable. Three, is it brought in good faith. And four, under the circumstances is there a need to deter and compensate. And plaintiff presses a fifth consideration, did the claim that they brought against Grace defendants raise complex and/or novel issues of fact and law.

I find it is relatively easy to answer these questions, so as to deny the Grace defendants application. Judge Politan ruled two years after the copyright claim was filed, in a letter opinion, that the Grace defendants could not have summary judgment on the issue of copyright infringement because, "Questions remain as to the relationship between the parties and the amount and magnitude of the changes of the software allegedly performed by the defendants." I cannot imagine a better highlights of the two month trial then those and that simple sentence of Judge Politan.

That's exactly what we spent a long time and arduous amount of effort and a good faith effort on both sides to try and clarify, trying to assist the jury in making an ultimate decision.

We spent all of the time because this was not a frivolous or objectively unreasonable claim for Geac to have made. So much for factors one and two. I ruled in dismissing the counterclaims that Grace defendants failed to adduce sufficient evidence to go to the jury that impugned Geac's good faith in bringing this lawsuit; that takes care of factor three.

As to factor four, any deterrence arguably goes in favor of the plaintiff as against defendants, if I was going to be issuing deterrent type of sanctions, or sanctioning, or awarding fees as a deterrence. And I speak of a wholly unjustified failure that I have commented on earlier by the Geac defendants to reveal the existence of GMI software, which Geac only discovered a few months before our trial.

Undoubtedly, this decision on the part of the Grace defendants, along with their late assertion for tortious interference claim, created a substantial amount of fees, not attributable to plaintiff, but to the defendants who are now making this application.

As to the awarding the fees to deter plaintiff from litigating as it did, this hard fought case raised for the jury's consideration concern core issues that are puzzling industry nationwide, as to which no bright lines have been drawn. How far can a licensee go, who arguably has rights to self maintain. Why shouldn't Geac, in other words, have sued when as it points out in its brief by the time the trial was over, it was fundamentally conceded by did Grace's defendants that they call and copy entire modules of Geac

source code in running their programs. Less Geac say by making this point, I have proven a copyright claim. I further point out that the jury decided such copying is nonetheless permissible and that verdict will stand, for the reasons earlier stated and will or won't survive an Appellate review.

Thus Factor 4, has lead naturally into the Fifth factor; the type of issues inherent in this copyright infringement claim. which are, and prove themselves before us over the two months, complex, critical. Two industries. Critical two licensees that are performing, self maintaining actions. Critical to people like the Grace maintenance business. And go to the heart of what copying is and what derivative works are in the world of computer software.

I reject any thought that Geac was not bringing a contestable claim for resolution. And on deterrence issues, I believe to award fees would not be an overweaning effort by the copyright holder, but rather efforts by a copyright holder to protect its source code.

In sum, the issues were litigated. The parties tried a lengthy lawsuit that was hard fought by both sides. Each asked the jury of their peers to draw the boundaries of copyright laws in the landscape presented. The dispute between them on where that line should be drawn was genuine. And plaintiff's position was objectively reasonable one.

The jury rendered the verdict and the plaintiff lost. Section 505 does not apply to the defendant's application for counsel fees under the circumstances as I find them

Finally, the evidence demonstrated and Mr. Ilutzi has a programmer familiar with the MD software, an energetic proponent of the maintenance work of Grace employees, has no greater claims to fees than the other Grace defendants and I find his arguments to the contrary unpersuasive. And therefore I am denying the motion of the Grace defendants.

In short I am denying both motions.

Thank you very much, counsel.

MR. MATUS: Thank you.

MR. WALCZYK: Thank you.

MR. ILUTZI: Thank you, Your Honor. Thank you.

THE COURT: Thank you.

UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

GEAC COMPUTER SYSTEMS, INC., Plaintiff, -against- GRACE CONSULTING, INC., GRACE MAINTENANCE INT. AND ANTHONY ILUTZI, Defendants.	Civil Action No. 94-1090 (KSH) ORDER (Filed Aug. 31, 2000)

NOW, upon consideration of Plaintiff Geac Enterprise Solutions, Inc.'s, f/k/a Geac Computer Systems, Inc., Motion For Judgment As A Matter of Law, Or, Alternatively, For A New Trial, made pursuant to Rule 50(b) of the Federal Rules of Civil Procedure, and dated June 20, 2000, and oral argument having been heard on August 7, 2000; and

upon consideration of Defendants Grace Consulting, Inc. and Anthony Ilutzi's Motion for Attorneys' Fees and Costs, made pursuant to 17 U.S.C. § 505, and dated June 20, 2000, and oral argument having been heard on August 7, 2000; it is

ORDERED, that Plaintiff Geac Enterprise Solutions, Inc.'s Motion for Judgment as a Matter of Law or, Alternatively, for a New Trial, pursuant to Rule 50(b) of the Federal Rules of Civil Procedure, is denied; and

ORDERED, that Defendants Grace Consulting, Inc. and Anthony Ilutzi's Motion for Attorneys Fees and Costs pursuant to 17 U.S.C. § 505 is denied.

SO ORDERED

/s/ Katharine S. Hayden
Honorable Katharine S. Hayden,
U.S.D.J.

Dated: Newark, New Jersey
August 30 2000

UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

CHAMBERS OF
NICHOLAS H. POLITAN
JUDGE

MARTIN LUTHER KING JR.
FEDERAL BUILDING &
U.S. COURTHOUSE
50 WALNUT ST., ROOM 5078
P.O. BOX 999
NEWARK, N.J. 07101-0999

NOT FOR PUBLICATION

August 13, 1996

LETTER OPINION
ORIGINAL ON FILE WITH CLERK OF THE COURT

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Re: Dun & Bradstreet Software Services, Inc.
v. Grace Consulting, Inc., et al
Civil Action No. 94-1090 (NHP)

(Filed Aug. 13, 1996)

Dear Counsel:

This matter comes before the Court on the following motions: (1) plaintiff Dunn & Bradstreet Software Services, Inc.'s ("DBS") motion for declaratory judgment; (2) defendants Grace Consulting, Inc., Grace Maintenance International, and Anthony Ilutzi's motion for summary judgment; and (3) plaintiff's motion for sanctions pursuant to Rule 11 of the Federal Rules of Civil Procedure. Oral argument was heard on July 22, 1996. For the reasons stated herein, plaintiff's motions for declaratory judgment and sanctions are **DENIED**, defendants' motion for partial summary judgment is **GRANTED**; therefore, Count One (to the extent it alleges a cause of action for misappropriation) and Counts Two through Six of plaintiff's Complaint are **DISMISSED WITH PREJUDICE**.

STATEMENT OF FACTS[1]

DBS is the owner of proprietary, copyrighted computer software, including software known as "Millennium". This particular software is a program which keeps track of business information, such as accounts payable, accounts receivable, and fixed assets. The customers who use Millennium software have license agreements with DBS which authorize their use of the software. Said agreements demand that if a third party consultant is employed by the customer to install and/or configure the software to the customer's needs, the consultant must execute a non-disclosure agreement acceptable to DBS.

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[1] A more detailed factual history is included in the Court's previous Letter Opinion, dated February 21, 1995.

Defendants provide computer programming services to licensees of various software. As a result, defendants were hired by the University of Virginia to act as its consultant with respect to the use of Millennium software. In compliance with the terms of the University's agreement with DBS, a Nondisclosure Agreement was drafted by defendants and submitted to plaintiff for its approval. Soon thereafter, Todd Hutto, then a Vice-President of DBS, signed the Nondisclosure Agreement.[2]

Subsequently, defendants entered into servicing agreements with other of plaintiff's licensees. Defendants incorporated into these new contracts the Nondisclosure Agreement which was approved by plaintiff for defendants' contract with the University of Virginia.

By letter dated February 7, 1995, plaintiff allegedly terminated defendants' Nondisclosure Agreement.[3] Plaintiff filed this Complaint on March 15, 1994, alleging: (1) copyright infringement; (2) violations of the New Jersey

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[2] Plaintiff claims that Mr. Hutto signed the agreement with the belief that the agreement applied solely to a single customer, the University of Virginia. Defendants contend that this agreement allows them to access DBS's copyrighted software in the hands of all DBS licensees.

[3] According to plaintiff, the agreement's failure to contain a period of duration, was sufficient to render it an at-will contract, terminable at the will of either of the parties at any time. As a result, plaintiff argues, it is entitled to a declaratory judgment which secures its faith in the power of the termination it issued. Defendants contend that this agreement was perpetual and unable to be simply terminated at the will of plaintiff. Therefore, defendants assert that plaintiff's letter of termination has no effect on defendants' ability to continue to conduct business with DBS's software. As a result, defendants continue to conduct business as usual.

Computer Crime Statutes; (3) consumer fraud; (4) intentional interference with contractual relations; (5) deprivation of prospective economic advantage; (6) and unfair competition. The present motions followed.

DISCUSSION

I. Summary Judgment[4]

A. Standard of Review

Under Rule 56 of the Federal Rules of Civil Procedure, summary judgment may only be granted if, drawing all inferences in favor of the nonmoving party, there is no genuine issue of material fact and the movant is entitled to judgment as a matter of law. *See Chipollini v. Spencer Gifts, Inc.*, 814 F.2d 893, 896 (3d Cir.), *cert. dismissed*, 483 U.S. 1052 (1987). Summary judgment may be granted against a party who fails to adduce facts sufficient to establish the existence of any element essential to that party's case, for which that party will bear the burden of proof at trial. *See Celotex Corp. v. Catrett*, 477 U.S. 317 (1986). The moving party bears the initial burden of identifying evidence which demonstrates the absence of a genuine issue of material fact. *Id.* Once that burden has been met, the nonmoving party must set forth "specific

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[4] While plaintiff has framed this as a motion for a declaratory judgment, the Court views this motion as one for summary judgment. Plaintiff's Complaint does not seek declaratory relief. In addition, declaratory judgments are only appropriate when "it will 'terminate the controversy' giving rise to the proceeding." Fed.R.Civ.P. 57, Advisory Committee Notes. Plaintiff is actually seeking summary judgment as to the issue of whether it properly terminated the contract in question. *See* Fed.R.Civ.P. 56(a).

facts showing that there is a genuine issue for trial," or the factual record will be taken as presented by the moving party and judgment will be entered as a matter of law. *See Matshushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574 (1986). The nonmovant must "do more than simply show that there is some metaphysical doubt as to the material facts." *Id.* at 586. Speculation, conclusory allegations, and mere denials are not enough to raise genuine issues of material facts.

B. Plaintiff's Motion

Plaintiff requests that this Court declare the Nondisclosure Agreement entered into by the parties terminable at will. In the event that this Court so finds, plaintiff wants to be able to advise its licensees, without opposition from defendants, that the Nondisclosure Agreement has been terminated and that the licensees may not accept any of defendants' continued offer of the Nondisclosure Agreement as satisfaction of the requirement of the license agreements.

Currently, plaintiff asserts that defendants continue to represent the original Nondisclosure Agreement to clients or potential clients as satisfaction of the nondisclosure requirement. In addition, defendants have not informed their clients about plaintiff's letter which attempted to terminate the agreement.

The major flaw in the Agreement is its failure to contain a term as to duration. As a result, plaintiff argues that it is terminable at will. On the other hand, defendants argue that certain material facts are at issue which make such a determination inappropriate at this time.

Plaintiff relies on the New Jersey Supreme Court's decision in *In re Miller's Estate* for the proposition that "[i]f a contract contains no express terms as to its duration, it is terminable at will or after a reasonable time." 90 N.J. 210, 219 (1982) (citations omitted). However, the *Miller* court also stated that "if a definite period of time can be inferred from the conduct of the parties and the surrounding circumstances, then that time period should govern the duration of the agreement." *Id.* at 220 (citations omitted). Plaintiff fails to recognize that the court in *Miller* was only able to determine the intent of the parties after conducting a trial.[5] In the instant case, questions of fact remain as to the parties intent and circumstances surrounding the contract. As such, the Court cannot grant summary judgment for plaintiff on the issue of termination.

C. Defendants' Motion

Defendants move for summary judgment, dismissing all the Counts of plaintiff's Complaint. The Court finds that there are material questions of fact which preclude summary judgment on many of these claims. Issues of

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[5] In rebuttal, plaintiff asserts that "[w]hen an agreement is silent as to its term, the law does not take parol evidence of the parties' intent in order to fill the void." Pl. Reply Br. at 1. This statement, however, is in direct contradiction with how the *Miller* court interpreted the contract. In *Miller*, the court recognized that "[o]n their face, the documents that granted MacKay a one-third interest in the proceeds of the RCA royalties do not give any indication of how MacKay was to continue to receive that interest. . . . The trial court's task then was to resolve the ambiguity as to the duration of Mackay's interest by examining the intent of the parties in the context of well-settled principles of law." *Miller*, 90 N.J. at 218.

copyright infringement, copyright misuse and fair use, and trade secret misappropriation cannot be resolved by the Court on summary disposition because questions remain as to the relationship between the parties, and the amount and magnitude of changes to the software allegedly performed by defendants.[6]

In the alternative, defendants argue that plaintiff's claims of misappropriation, interference, deprivation, and unfair competition reflected in Counts One, Four, Five and Six, respectively, are preempted by the Copyright Act (hereinafter the "Act"). Section 301 of the Copyright Act provides as follows:

> (a) On and after January 1, 1978, all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103, whether created before or after that date and whether published or unpublished, are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.
>
> (b) Nothing in this title annuls or limits any rights or remedies under the common law or statutes of any State with respect to –

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[6] The Court notes that plaintiff does not oppose defendants' motion as to Counts Two (New Jersey Computer Crime Statute) and Three (New Jersey Consumer Fraud Act). Accordingly, defendant's motion as to these Counts of plaintiff's Complaint are **GRANTED**.

> (1) subject matter that does not come within the subject matter of copyright as specified by sections 102 and 103, including works of authorship not fixed in any tangible medium of expression; or
>
> * * *
>
> (3) activities violating legal or equitable rights that are not equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106;. . . .

17 U.S.C. § 301. The comments to the Section state unequivocally that "[a]ll corresponding State laws, whether common law or statutory, are preempted and abrogated." *Id.*, Historical and Statutory Notes.

To determine whether a state cause of action is preempted, the Court must analyze whether: (1) the subject matter of the claims falls within the subject matter of copyright law, and (2) the rights to be vindicated by the common law claim are equivalent to any rights granted under the Act. *Long v. Quality Computers & Applications, Inc.*, 860 F. Supp. 191, 196 (M.D. Pa. 1994) (citation omitted). The parties do not dispute that the computer software in question is protected by the Act, i.e. the first element is satisfied. The Court, therefore, need only focus on whether the common law claims asserted by plaintiff are equivalent to those prescribed in the Act.

Section 106 of the Act enumerates the exclusive rights which are protected: the right to reproduce, to prepare derivative works, to distribute, and display. 17 U.S.C. § 106. To determine whether a state cause of action is equivalent to the Act, the Court applies the "extra element" test. "If a state cause of action requires an extra

element, beyond mere copying, preparation of derivative works, performance, distribution or display, then the state cause of action is qualitatively different from, and not subsumed within, a copyright infringement claim and federal law will not preempt that state action." *Gemel Precision Tool Co., Inc. v. Pharma Tool Corp.*, No. 94-5305, 1995 WL 71243, at *5-6 (E.D. Pa. Feb. 13, 1995) (quoting *Data General Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1164 (1st Cir. 1994)).

i. Interference and Deprivation

Counts Four and Five of plaintiff's Complaint allege causes of action for intentional interference with contractual relations and deprivation of prospective economic advantage, respectively. In particular, Count Four asserts that defendants "unlawfully, intentionally and maliciously interfered with D&B business and contractual relationships with its licensees. . . . " Compl. at ¶ 53. Additionally, Count Five alleges that defendants diverted "the service, maintenance and upgrading of copyrighted D&B Millennium material for D&B licensees. . . . " *Id.* at ¶ 57.

Plaintiff argues that these Counts assert "claims of 'invasion of personal rights or a breach of trust or confidentiality' that are consistently held *not* to be preempted by the Copyright Act." Pl.Br. at 36 (emphasis in the original). The facts which support plaintiff's claims posit that "defendants have induced one or more D&B customers to provide them with Millennium software, upgrade programs, documentation and customer lists . . . [and] illegally and without D&B permission copied these proprietary D&B materials." Compl. at ¶¶ 20, 21.

These facts are at the heart of the copyright infringement claim. They do not establish qualitatively different conduct on the part of defendants. *See, e.g., Harper & Row Publishers, Inc. v. Nation Enterprises*, 723 F.2d 195, 201 (2d Cir. 1983), *rev'd on other grounds*, 471 U.S. 539 (1985); *Long*, 860 F. Supp. at 196-97. "The enjoyment of benefits from derivative use is so intimately bound up with the right itself that it could not possibly be deemed a separate element." *Harper*, 723 F.2d at 201 (citation omitted). Hence, the state law claims for tortious interference with contractual relations and deprivation of prospective economic advantage are preempted by the Act. *See Fasa Corp. v. Playmates Toys, Inc.*, 869 F. Supp. 1334, 1359 (N.D. Ill. 1994) (citing a litany of cases holding that "claims for tortious interference with contract (or prospective advantage) are preempted . . . ").

ii. Misappropriation

Defendants also move to dismiss plaintiff's claim of misappropriation of confidential information.[7] The effect of the preemption clause on state law misappropriation claims was a topic of great controversy when the law was enacted. 1 NIMMER ON COPYRIGHTS § 1.01[B][1][f][i] (1996). Accordingly, any direct reference to misappropriation was

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[7] Defendants note that none of the Counts in plaintiff's Complaint are labeled "Misappropriation". Def.Br. at 31 n.16. However, defendants acknowledge that plaintiff has pled facts in support of such a claim, Compl. at ¶¶ 16-27, and incorporated said facts into the subsequent counts. Accordingly, defendants treat the First Count in plaintiff's Complaint as asserting a cause of action for misappropriation. Plaintiff does not object to this characterization. Accordingly, the Court will do the same.

deleted from the wording of the Act. *Id.* As a result, the federal courts have grappled with the relationship of the cause of action within the Act. *Id.*

The Third Circuit has not addressed this issue. However, within the Circuit, some "[c]ourts [have] recognize[d] two distinct types of misappropriation of trade secrets: those based upon the use of a plaintiff's work and those based upon the disclosure of material that a defendant has a duty to keep confidential[8]. . . . Typically, claims of the former type are preempted while claims of the latter type are not, because they contain the extra element of violation of a duty." *Long*, 860 F. Supp. at 197; *accord Gamel, supra*, at *7.[9]

The breach of a duty of trust or confidence in some trade secret claims "supplies the 'extra element' that qualitatively distinguishes such trade secret causes of

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[8] Some courts make a distinction between the illegal acquisition of a trade secret and the use of a trade secret. *See Computer Assoc. Int'l, Inc. v. Altai, Inc.*, 982 F.2d 693, 717-19 (2d Cir. 1992). Under the wrongful acquisition theory, the plaintiff may have to prove that the defendant breached a duty of confidentiality. *Id.* at 718 (citation omitted). This requirement of an "extra element" would preclude preemption under the Act.

[9] Plaintiff argues that "[f]ederal courts have uniformly held that common law claims involving interference with an existing confidential or contractual relationship . . . are qualitatively different from copyright claims, and are not preempted." Def.Br. at 35. Plaintiff cites the Fourth Circuit's decision, in *Trandes Corp. v. Guy F. Atkinson Co.*, which held that misappropriation claims based solely on copying are not preempted by the Act. *See* 996 F.2d 655, 658-59 (4th Cir.), *cert. denied*, 510 U.S. 965 (1993). The Court recognizes, however, that this decision has not been followed by any other circuit courts. Such a holding would be contrary to the purpose of the Act, as stated in the legislative history. *See* 17 U.S.C. § 301, Historical & Statutory Notes.

action from claims for copyright infringement that are based solely upon copying." *Computer Assoc. Int'l, Inc. v. Altai, Inc.*, 982 F.2d 693, 717 (2d Cir. 1992). The Court must analyze the conduct that constitutes misappropriation to determine whether it requires "any element other than the mere act of reproduction, distribution, performance or display." NIMMER, *supra*, § 1.01[B][1][f][ii].

The instant Complaint alleges a cause of action based on the use theory. Plaintiff asserts that defendants "have illegally and without D&B's permission *copied* these proprietary D&B materials and *used* this confidential information to solicit existing D&B licensees with the intention of providing these licensees with maintenance services for D&B software in competition with D&B." Compl. at ¶ 21 (emphasis added). Hence, this claim does not contain the extra element necessary to avoid preemption. *See Long*, 860 F. Supp. at 197. *Compare Gemel*, *supra*, at *8-9.

iii. Unfair Competition

The Sixth and final Count of plaintiff's Complaint asserts that defendants "willfully, maliciously and knowingly engaged in unfair competition" by using plaintiff's confidential information, charging lower prices, and interfering with plaintiff's contracts. Compl. at ¶ 61. The Court finds that plaintiff's unfair competition claim is based upon defendants' alleged misappropriation of confidential information for which the Act provides a remedy. Accordingly, because the Court finds that plaintiff's misappropriation claim is preempted by the Act, the unfair competition claim should be treated similarly. *See Warner Bros. v. American Broadcasting Cos., Inc.*, 720

F.2d 231, 247 (2d Cir. 1983) (citations omitted); *Fasa*, 869 F. Supp. at 1364.

II. Rule 11 Sanctions

Plaintiff moves the Court to impose sanctions upon defendants, pursuant to Rule 11 of the Federal Rule of Civil Procedure, for making a frivolous challenge to the admissibility of the Declaration of Thomas Hogan. Rule 11 prescribes sanctions, including attorney fees, only in exceptional circumstances "where a claim or motion is patently unmeritorious or frivolous." *Doering v. Union Cty. Bd. of Chosen Freeholders*, 857 F.2d 191, 194 (3d Cir. 1988); *see also Arab African Int'l Bank v. Epstein*, 10 F.3d 168, 175 (3d Cir. 1993); *Lightning Lube, Inc. v. Witco Corp.*, 144 F.R.D. 662, 666 (D.N.J. 1992). The test is one of objective reasonableness under the circumstances. *Gillette Foods, Inc. v. Bayernwald-Fruchteverwertung*, 977 F.2d 809, 814 (3d Cir. 1992); *Pension Fund-Mid-Jersey Trucking Indus. v. Omni Funding Group*, 687 F. Supp. 962, 966 (D.N.J. 1988).

This standard is stringent because such sanctions are in direct derogation of the American policy of encouraging people to resort to courts for peaceful dispute resolution. *Doering*, 857 F.2d at 194 (citation omitted). The plaintiff's conduct must rise to the level of an abuse of judicial process. *Id.*; *see also International Minerals & Mining Corp. v. Citicorp N. Amer., Inc.*, 736 F. Supp. 587, 600 (D.N.J. 1990).

In the case *sub judice*, after a thorough review of the submissions of the parties as well as of the record as a whole, the Court finds that sanctions are not presently

warranted. Accordingly, plaintiff's motion insofar as it relates to sanctions is hereby **DENIED**.

CONCLUSION

For the foregoing reasons, plaintiff's motion for summary judgment is **DENIED**, and plaintiff's motion for sanctions is **DENIED**, and defendants' motion for summary judgment is **GRANTED**. Accordingly, Count One (to the extent it alleges a cause of action for misappropriation) and Counts Two through Six of plaintiff's Complaint are **DISMISSED**.

An appropriate Order accompanies this Opinion.

/s/ Nicholas H. Politan
NICHOLAS H. POLITAN
U.S.D.J.

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEW JERSEY

DUN & BRADSTREET SOFTWARE SERVICES, INC., Plaintiff, v. GRACE CONSULTING, INC., et al, Defendants.	CIVIL ACTION NO. 94-1090 HON. NICHOLAS H. POLITAN ORDER (Filed Aug 13, 1996)

This matter having come before the Court on plaintiff's motions for declaratory judgment and sanctions and defendants' motion for summary judgment, and the Court having heard oral argument on July 22, 1996, and having considered the matter and the submissions of the parties, and for the reasons appearing more particularly in the Letter Opinion in the above-captioned matter, and good cause having been shown.

IT IS on this 13th day of August, 1996 hereby

ORDERED that plaintiff's motion for declaratory judgment is **DENIED**, and it is further

ORDERED that plaintiff's motion for sanctions is **DENIED**, and it is further

ORDERED that defendant's motion for partial summary judgment is **GRANTED**; therefore, Count One (to the extent it alleges a cause of action for misappropriation) and Counts Two through Six of plaintiff's Complaint are **DISMISSED WITH PREJUDICE**.

/s/ Nicholas H. Politan
U.S.D.J.

LICENSE AGREEMENT

1. DEFINITIONS

For the purpose of this Agreement, the following are defined terms:

a. The term "Licensed Program" shall mean a series of machine readable instructions or statements which form a set of information processing programs relating to a particular application or operational feature licensed for use under this Agreement.

b. The term "Licensed Materials" shall mean the materials listed under Materials on the attached Licensed Program and Materials Schedule.

c. The term "System" shall mean all programs and materials licensed under this Agreement.

d. The term "Enhancement" shall mean modifications, refinements and improvements, that M&D makes to a Licensed Program or Licensed Materials and elects to incorporate into and make a part of that Licensed Program or Licensed Materials and which M&D docs not separately market, M&D reserves the right to determine what constitutes an Enhancement.

c. The term "Use" shall mean copying any portion of a Licensed Program or Licensed Materials into a computer or transmitting them to a computer for processing of the instructions or statements contained in the Licensed Program or Licensed Materials.

2. SYSTEM USE

Customer is authorized to Use the System solely for its own internal operation on any central processor within

Customer's data center at the location designated on the Customer and Product Information Schedule, at any other site which may replace it as provided in this section, or through a service bureau upon prior written approval of M&D.

If the computer at the designated site is inoperative due to malfunction, any license granted under this Agreement for the designated site shall be temporarily extended to authorize Customer to Use the Licensed Program(s) at any other site until the designated site is returned to operation. If the designated site is relocated, any li ense granted hereunder for that site shall be extended to authorize Customer to Use the Licensed Program(s) at the relocated site. Customer may not replace or relocate the site to any location that is not a subsidiary of Customer without this express written consent of M&D.

Customer may use the System in a remote-job-entry mode for the benefit of Customer and Customer's subsidiaries, provided that all processing involving Use of any Licensed Program takes place only at the designated site or its temporary replacement.

If any Licensed Program or Licensed Materials in machine-readable form will be Used at a site in addition to the designated site, an additional license will be required for each additional site.

3. ASSIGNMENT OF USE

Customer's rights to the System under this Agreement shall not be assigned, licensed or otherwise transmitted voluntarily or otherwise by Customer except to a purchaser of substantially all of the outstanding capital stock or assets of Customer who has agreed in writing to

be bound by all of the terms and conditions of this Agreement, without the prior written approval of M&D.

4. MAINTENANCE

Maintenance provided under this Agreement for each Licensed Program is set out in the Maintenance Services section of the Program Maintenance Schedule.

5. TERM OF AGREEMENT

The term of this Agreement shall commence upon the effective date of this Agreement and shall remain in force for a term of ninety-nine years unless terminated before as provided in this Agreement.

6. TERMINATION

If either party fails to perform its obligations as set out in this Agreement and such failure to perform is not corrected within 30 days of written notification of such failure from the other, this Agreement may be terminated according to the terms and conditions of this section upon 10 days written notice of termination to the failing party.

Within one month after this date of termination, Customer shall return to M&D or destroy the original and all copies of the system, in any form, in whole or in part, and an officer of Customer shall certify to the foregoing in writing delivered to M&D.

Customer shall pay any accrued charges provided for in this Agreement incurred prior to the date of termination. Customer shall pay any shipping and handling charges necessary to return the System to M&D. Any further obligations of the parties shall cease except that the terms and conditions of the section entitled Confidentiality shall

continue in full force and effect for a period of 5 years after termination.

7. PAYMENT

In consideration of the license granted hereunder by M&D to Customer, Customer will pay to M&D the License Fee listed on the first page of this Agreement. Payment of such amount shall be made as follows:

Ninety percent (90%) of the License Fee upon execution of this Agreement. The balance of the License Fee applicable to each Licensed Program within 30 days of delivery of that Licensed Program and Materials to Customer.

Invoices unpaid by Customer within 30 days of the date payment is due to M&D, shall be subject to 1½% per month interest which shall be added to the amount due and owing to M&D.

8. APPLICABLE TAXES

In addition to the License Fee, Customer agrees to pay all federal, state, local or other taxes based on this Agreement for the System, its use, or for any services performed in connection with this

Agreement excluding taxes based on M&D's net income and privilege taxes. Such taxes to be paid by Customer include, but are not limited to, personal property, sales, use, or excise taxes, or amounts in lieu thereof, which are now or may be imposed by any taxing authority.

9. SHIPMENT & IMPLEMENTATION

The System shall be shipped to Customer on or before the date specified for each Licensed Program on the Licensed Program and Materials Schedule or within 2

weeks of execution of this Agreement and M&D's receipt of the first installment of the License Fee, whichever occurs last, subject to conditions beyond M&D's control.

Customer will provide facilities for the installation of the System and shall have the following responsibilities:

a. Customer shall appoint personnel to a project team for the purpose of installing, learning and using the System. The project team shall comprise:

1. A project leader to interface between M&D's support staff and Customer's data processing, operations and user departments.

2. Additional data processing and user personnel as required.

b. Customer shall complete all parameter forms, input forms, data preparation instructions, operating instructions and customizing of computer job control language for executing the System.

c. Customer shall schedule the training of Customer personnel and shall supervise the testing and implementation of the System.

d. Customer shall customize any or all Licensed Materials provided by M&D to fit custom or unique requirements of Customer's user and data processing departments.

10. WARRANTY

M&D warrants on all M&D software products for 120 days after receipt of each Licensed Program and Materials at the first designated site for the operating system environment that such Licensed Program will conform to

the Licensed Materials as delivered by M&D. M&D represents that the Licensed Materials accurately describe the features, capabilities, and designs of the Licensed Program, except as specifically stated otherwise. Customer acknowledges that it has sufficient opportunity to review a copy of the Licensed Materials prior to the execution of this Agreement and fully understands the capabilities of the Licensed Program as represented. Customer shall use its best efforts to implement each Licensed Program and to assist M&D in researching and documenting the circumstances of program nonconformance. Should a Licensed Program not function in accordance with the Licensed Materials, notwithstanding M&D's attempt to correct nonconformances, Customer shall be entitled to a refund of the License Fee paid for that License Program and Materials and this Agreement as to the nonconforming Licensed Program shall terminate. Any demand for the refund pursuant to the section must be received in writing by M&D on or before the end of the Warranty Period.

11. WARRANTY OF RIGHT TO GRANT LICENSE

M&D warrants that it has the right to grant a license to the System free and clear of any liens and encumbrances.

12. LIMITATION OF LIABILITY

THE WARRANTIES STATED IN THIS AGREEMENT ARE IN LIEU OF ALL OTHER WARRANTIES AND CONDITIONS EXPRESSED OR IMPLIED INCLUDING, BUT NOT LIMITED TO, THOSE CONCERNING MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

Except as provided under the Copyright/Patent section, M&D shall not be liable for any loss, cost damage or expenses arising directly or indirectly in connection with this Agreement or any Amendment or Attachment to it, in excess of the amount of the License Fee paid by Customer to M&D. In no event shall M&D be liable for any special or consequential damages or for any indirect damages such as punitive damages even if M&D has been notified of the possibility of such damages.

13. COPYRIGHT/PATENT

M&D warrant that the System should not infringe any United States copyright or patent rights of any third party. If notified promptly in writing, M&D will defend at its expense, and hold Customer harmless against any copyright or patent infringement action based on Customer's use of the System and not a result of Customer changes or customizing to the System, M&D has the right to have sole control of the defense of such action and will pay any costs and damages awarded or the cost of settling the action.

14. ACKNOWLEDGEMENT OF NO PROGRAM RIGHTS

Customer acknowledges that the System is the property of M&D and that M&D intends that Customer will use the System only under the terms and conditions of this Agreement.

15. CONFIDENTIALITY

With respect to the System, the terms and conditions of this Agreement and to financial, statistical, business, technical, copyrighted and/or confidential information relating to each other's business which is submitted by

either M&D or Customer in order to carry out this Agreement, each party will instruct its personnel to keep such information confidential by using the same care and discretion that they use with similar data of their own. Customer further agrees to take reasonable steps to ensure that any program or materials relative to the operation of the System, including but not limited to flow charts, logic diagrams, and source code, in any form are not provided or otherwise made available to any other parties other than employees of Customer without prior written consent from M&D. Information regarding the system may be provided to Customer's auditors only to the extent required by their audit function. Customer may also disclose M&D confidential information to Customer's consultants who have been retained to perform work for hire in connection with Customer's use of the System. All Customer consultants having access to M&D confidential information will be required to execute a non-disclosure agreement acceptable to M&D prior to disclosure.

In the event of any unauthorized disclosure of confidential information by Customer, M&D may elect to terminate this Agreement as provided in the Termination section. Customer acknowledges that monetary damages may not be sufficient remedy or protection for M&D and M&D shall be entitled to injunctive or other equitable relief as may be deemed proper or necessary by a court of competent jurisdiction.

16. COPIES OF LICENSED PROGRAM AND MATERIALS

Customer shall not copy the System, in whole or in part, except as expressly provided in this section. The System may be copied, in whole or in part, in printed or

machines readable form, for use by Customer at the designated site, for archive or emergency restart purposes, to replace a worn copy, to understand the contents of such machine-readable materials, or to store at the off-premises location which Customer uses for security storage purposes, provided, however, that no more than 10 printed copies and 10 machine-readable copies will be in existence under this license at any one time without prior written consent from M&D. Customer agrees not to remove or destroy any proprietary markings or proprietary legends appearing on or contained within any Licensed Program or Materials and Customer agrees that such proprietary markings or legends shall appear on all copies or partial copies of the Licensed Program and Materials made by Customer.

17. GOVERNING LAW

This Agreement shall be determined to have been entered into, and shall be interpreted, in accordance with the laws of Commonwealth of Massachusetts.

18. SERVICE OF NOTICE

Except for notices required under the Termination section of this Agreement, which shall be sent by registered or certified mail, any notice, request or payment of statement hereunder shall be deemed to be sufficiently given or rendered when sent by first class mail to the addresses of the parties set forth on the Licensed Programs and Materials Schedule, or such other addressees, which may, from time to time be designated by notice in writing by the parties.

19. EQUAL OPPORTUNITY EMPLOYER

M&D is an equal opportunity employer and fully supports Title 1 of the 1984 Civil Rights Act calling for a viable affirmative action program.

McCormack & Dodge
a company of
The Dun & Bradstreet
Corporation

1225 Worcester Road,
Natick, MA 01760

PROGRAM MAINTENANCE SCHEDULE
MILLENNIUM SERIES

MAINTENANCE SERVICES

For a period of one year from the date of the License Agreement, M&D will provide the following maintenance services as part of the License Fee:

1. All program corrections necessary to make the Licensed Program operate in accordance with the Licensed Materials within 30 business days of receipt of written notice from Customer describing program nonconformances.

2. Enhancements that M&D makes to the Licensed Program. All application-oriented programming will be ANS COBOL ("74" Standards).

3. Updates to the Licensed Program to correct any known problems or defects diagnosed by M&D.

4. Telephone support to counsel and advise Customer on the use and maintenance of the Licensed Program.

5. On-site assistance to correct program nonconformances is available at a mutually agreeable time. All expenses incurred by M&D in providing on-site support are separately and additionally billable.

6. Access to M&D training schools and organized user meetings. Customer shall be responsible for its own travel and subsistence costs and shall pay a reasonable attendance fee.

7. M&D will provide its Fixed Assets Customers with all program and materials modifications for M&D's Fixed Assets program to accomodate changes in the Internal Revenue Code of 1954, as amended.

8. M&D will provide its Human Resources Customers with all program and materials modifications for M&D's Human Resources program to meet state and federal tax regulations.

Customer shall use its best efforts to Implement Enhancements, updates and program corrections. If required in the judgment of M&D, M&D will provide on-site assistance to correct Implementation problems. If it is determined by M&D that the problem is due to Customer program alterations or failure to comply with the maintenance terms, Customer shall pay M&D's then current support charge.

All maintenance services apply to the System and Enhancements as delivered by M&D. Customer will modify any program corrections, Enhancements and updates to fit Customer's custom or unique requirements.

ON-GOING MAINTENANCE

Following the free maintenance period, the elective On-Going Maintenance Program begins. Services provided under the On-Going Maintenance Program are the same as described above and will be offered under M&D's then current prices, terms and conditions. Customer must apply program maintenance to keep its programs up-to-date and must Implement Enhancements within 12 months of their release by M&D to remain eligible for On-Going Maintenance.

Customer understands that should it not elect On-Going Maintenance, support of all types including but not limited to Enhancements, program maintenance, applications support, access to M&D's training schools, and telephone support may not be available from M&D.

Should Customer decide to resume maintenance after termination, Customer may be required to pay an additional charge to bring its programs up-to-date. Invoices for such charges will be payable upon receipt.

MAINTENANCE BILLING

The On-Going Maintenance year runs from January 1 through December 31. Upon expiration of the free maintenance period, Customer will be invoiced a prorated amount of the annual maintenance fee for maintenance coverage from the end of the free maintenance period to the end of the On-Going Maintenance year in which the free period expires. Customer will be invoiced for On-Going Maintenance on or before the beginning of each maintenance year. All charges for maintenance services shall be payable upon receipt of invoice.

[LOGO] Grace
Maintenance Int.
P.O. Box 43121, Upper Montclair, NJ 07043
800-767-7017

Contract for Programming Services

This contract is between Grace Consulting, Inc. Doing Business As, Grace Maintenance Int. ("Grace"), 79 Midland Avenue, Montclair, NJ 07043 and Alex Lee, Inc. ("Customer"), P.O. Box 800, Hickory, NC 28603.

1. Statement of Work.

As requested by Customer, Grace will furnish programming services to Customer. The specific services to be rendered will be specified in separately-executed contracts denoted "Letters of Authorization," incorporating this contract by reference. The Letters of Authorization shall specify the rates and the delivery schedule for the services.

2. Appointment of Customer Representative

For each project authorized in a Letter of Authorization, Customer shall appoint a Project Leader or equivalent representative. The Project Leader shall have the responsibility on behalf of Customer of determining that the services performed by Grace satisfy the work requested under the Letter of Authorization. Such determination shall not be unreasonably withheld.

3. Grace's Responsibilities

Grace shall be responsible for the supervision and direction of the services performed by its representatives.

All persons furnished by Grace shall be considered solely Grace's employees, agents, or representatives. Grace will require its representatives to comply with Customer's regulations and policies while they are on Customer's premises. Grace shall have the right to appoint and replace its representatives at its discretion. However, Grace agrees to replace any representative that Customer deems to have failed to perform in accord with this contract and/or the Letter of Authorization. Customer agrees to immediately notify Grace if it determines that any Grace representative has not performed in accord with this contract and/or the Letter of Authorization.

4. Payment for Services

Grace will present invoices to Customer as specified in the Letter of Authorization. Customer agrees to pay all invoices in full within 30 days of the date of each invoice.

5. Proprietary Rights

Any proprietary or confidential information, including source code, object code, documentation, and related know-how (hereinafter "information") furnished or disclosed by Customer to Grace shall be deemed proprietary and the property of Customer, or as applicable, the property of third parties including software vendors and licensors. Information shall not include any information that is previously known without obligations of confidence, or, without breach of this contract, is publicly disclosed in a lawful manner, or is rightfully received from a third party without obligation of confidence, or information that is independently developed by Grace.

During its use of the information, Grace agrees to take reasonable precautions to insure the protection and confidentiality of the information. Grace agrees not to disclose, provide, or otherwise make available the information to persons other than Grace's staff, Customers' employees and authorized agents, and employees and authorized agents to software vendors and licensors. Grace agrees not to print, copy, or reproduce the Information except necessary for the purpose of assisting its Customer. Grace agrees to affix appropriate notices to proprietary information, copyrights, and trade secrets to any copy of the Information made by Grace, in such manner and location as to give reasonable notices of such rights.

Customer agrees that all programs and related materials developed by Grace shall be solely the property of Grace and Grace shall own all proprietary rights therein including any copyrights, trade secrets, patents, trademarks, and know-how. Customer shall have a non-exclusive license to use such Grace programs and related materials. Customer agrees to take reasonable precautions to insure the protection and confidentiality of Grace programs and materials.

6. Warranty and Limitation of Liability

Grace warrants that all services performed by Grace for Customer will be performed in a competent and workman-like manner and that Grace will use its best efforts to insure that any programming provided under this contract will perform substantially in accordance with the applicable documentation.

With respect to any system for which Grace is engaged to provide services, Grace shall not be responsible

for any malfunctions or failures if the system is subjected to unauthorized modifications or enhancements, improper applications or uses, improper installation by persons or entities other than Grace, accidental damage, negligence in use, acts of God, electrical power interruptions or fluctuations, or abnormal operating conditions.

Except as otherwise provided in this contract, Customer agrees that all services will be provided without warranty of any kind, either express or implied, including, but not limited to, implied warranties of merchantability or fitness for a particular purpose. Customer further agrees that Grace, and its officers, directors, employees, agents, and representatives, shall not be liable for any damages including lost profits, or incidental, consequential, exemplary, or punitive damages arising from the services provided. Notwithstanding the foregoing, Grace shall in no event be liable for any damages exceeding the charges actually paid by Customer to Grace.

7. Arbitration

Any controversy or claim arising out of or relating to this contract, or its breach shall be settled by binding arbitration in Newark, New Jersey or at some other mutually agreeable location. The panel of arbitrators shall be composed of three (3) persons, one of whom shall be selected by Customer, another by Grace. Such selection of arbitrators shall be made within ten (10) days after the date on which the parties determine in good faith that they will unable to agree as to the settlement of the controversy or claim. The two (2) arbitrators so selected shall select a third arbitrator. The decision of a majority of the panel of arbitrators shall be made with thirty (30) days

of the selection of the third arbitrator, and shall be final and conclusive upon the parties hereto and judgment on the decision rendered may be entered in any court having jurisdiction as provided in this contract below. The arbitration shall be governed and conducted in accordance with the Rules of the American Arbitration Association for commercial arbitration. The cost of any such arbitration shall be divided equally between the parties hereto, or in such other fashion as the majority of the arbitration panel may order.

8. Effective Date, Termination, and Governing Law

This contract is effective upon the last date signed below and may be terminated at any time by either party hereto upon written notice to the other party, except that, unless Grace has breached one or more of its material obligations under this contract, Customer shall not terminate this contract prior to the conclusion of Grace's engagement by Customer as specified in any outstanding and effective Letters of Authorization.

Grace and Customer agree that their respective obligations with respect to confidentiality of proprietary information under this contract shall continue for a period of ten (10) years from the date of termination of this contract. This contract shall be governed by law of the State of New Jersey and each party agrees to submit to the exclusive venue and jurisdiction of the courts of the State of ~~New Jersey~~ North Carolina.

Grace Consulting, Inc.
DBA Grace Maintenance Int.

By: /s/ Anthony Ilutzi
Authorized Representative

/s/ Anthony Ilutzi
Name

/s/ President
Title

Date 12/20/93

Alex Lee, Inc.

By: /s/ Calvin S. Sihilling
Authorized Representative

/s/ Calvin S. Sihilling
Name

/s/ Vice President
Title

Date 12/2/93

[LOGO] Grace
Maintenance Int.
P.O. Box 43121, Upper Montclair, NJ 07043
800-767-7017

Consultant Staff Member Nondisclosure Agreement

Mr. Earl Vantour, Staff Member of Grace Consulting, Inc. Doing Business As Grace Maintenance Int., ("Grace"), 79 Midland Avenue, Montclair, NJ 07042 acknowledges that her or she has read the attached Consultant Nondisclosure Agreement between Dun & Bradstreet Software Services, Inc. ("DBS"), 3445 Peachtree Road, NE, Atlanta, Georgia 30326 and Grace Consulting, Inc.

Staff Member further acknowledges that DBS has further represented that certain DBS-licensed software systems and all related DBS-produced materials and information, whether written or in machine readable form, in whole or in part, and all derivative works thereof (hereinafter collectively and individually the "System"), have tangible value and contain valuable trade secrets, copyrights, and confidential information of DBS and its licensors. In order to perform services for and on behalf of Grace and, in view of the representations of DBS set forth above, Staff Member is entering into this acknowledgement.

Staff Member acknowledges that her or she is being permitted to study the System for the purpose of assisting Grace's Customer ("Customer") in the evaluation and utilization of the System to meet Customer's particular requirements.

Staff Member agrees not to disclose, provide, or otherwise make available the System to persons other than Grace's staff, who have also executed an acknowledgement of this

type, Customer's employees, Customer's agents authorized by DBS, or DBS employees for purposes specifically related to Staff Member's and Grace's study of the System.

During his or her use and study of the System, Staff Member agrees to take reasonable precautions to insure the protection, confidentiality, and security of the System. Staff Member agrees not to print, copy, or reproduce the System except as necessary for the purpose set forth in above. Grace agrees to affix a notice of proprietary information, copyrights, and trade secrets of DBS and its licensors to any copy of the System made by Staff Member, in such manner and location as to give reasonable notice of such rights.

Staff Member's obligations under this agreement shall not extend to: material in the public domain; material not containing or embodying the System; material that becomes part of the public domain through no act or omission of Grace or its staff; material rightfully received by Grace or Staff Member from third parties who were entitled to receive and transfer same; material disclosed to Grace or Staff Member by a third party who Grace or Staff Member does not know or has reason to know is under a duty of nondisclosure to DBS; material independently developed by Grace; or material disclosed pursuant to lawful authority following notice to DBS and its licensors and opportunity to intervene.

/s/ Carolyn Ryan
Carolyn Ryan
Grace Maintenance Int.
6/7/93
Date

/s/ Earl Vantour
Earl Vantour
6/22/93
Date

BRIEF OF *AMICUS CURIAE*
SERVICE INDUSTRY ASSOCIATION

IN SUPPORT OF DEFENDANTS-APPELLEES GRACE CONSULTING, INC., GRACE MAINTENANCE INT. AND ANTHONY ILUTZI IN SUPPORT OF DENIAL OF APPEAL AND AFFIRMANCE OF CROSS-APPEAL

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

No. 00-2772

GEAC ENTERPRISE SOLUTIONS, INC.

Plaintiff-Appellant,

v.

GRACE CONSULTING, INC., GRACE MAINTENANCE INT., And ANTHONY ILUTZI

Defendants-Appellees

On Appeal From a Jury Verdict and Final Order in The United States District Court for the District of New Jersey

COUDERT BROTHERS
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Counsel for *Amicus Curiae*
Service Industry Association

* * *

I. STATEMENT OF INTEREST OF *AMICUS CURIAE*

Service Industry Association ("SIA") is an organization of over 150 independent service organizations ("ISO's"), *i.e.*, organizations that service equipment manufactured by others. The members of SIA service high-tech equipment and software, ranging from computers to the type [sic] financial software created by Appellant ("GEAC") at issue in the case below. SIA's member organizations employ thousands of people, and account for over $1 billion in commerce each year.

SIA is a non-profit corporation whose purpose is to promote and maintain a close union among ISOs. SIA also develops educational methods to increase awareness about third party maintenance organizations, and studies economic problems facing the industry. In addition, SIA serves as a clearing house for information and data relating to its members' businesses and promotes better relations among providers, distributors, and manufacturers of supplies and services.

Because most, if not all, of SIA's member organizations offer service for products that are patented or copyrighted, SIA has a substantial interest in the outcome of this appeal. SIA is in a unique position to comment on the serious ramifications of a reversal of the jury verdict below, more specifically on the crippling effect such a decision would have on the entire third party service industry. SIA has submitted numerous *amicus* briefs in federal courts throughout the country concerning general issues of intellectual property and service competition. In *Eastman Kodak Co. v. Image Technical Services*, 504 U.S. 451, 112 S.Ct. 2072 (1992), SIA filed a brief which supported

Respondent ISO's, and which was cited by the Supreme Court as evidence of the "magnitude of the service business." *Kodak*, 504 U.S. at 462, n. 6.[1]

SIA submits this *amicus curiae* brief in support of Appellees ("Grace") to ensure that the jury verdict below is upheld. If reversed, ISOs for high-technology equipment will either cease to exist or will exist only at the sufferance of the original equipment manufacturers – all of whom, like GEAC, have product patents or copyrights which they could use to lessen competition for service of those products. SIA further supports Grace's cross-appeal seeking reversal of the order denying Grace's motion for attorneys' fees. By denying Grace's motion for "prevailing party" attorney's fees, the District Court circumvented the Copyright Act and effectively achieved what GEAC was unable to do through its infringement claims – eliminate Grace as its primary service competitor.

II. SUMMARY OF ARGUMENT

The copyright laws were designed to motivate creative activity for a public purpose, *not* to allow the holder of such a valuable right the ability to make it

* * *

[1] SIA was then known as Computer Service Network International ("CSNI").

Supreme Court, U.S.
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No. 02-1307

IN THE

Supreme Court of the United States

GRACE CONSULTING, INC. t/a GRACE MAINTENANCE INT. and ANTHONY ILUTZI,

Petitioners,

v.

DUN & BRADSTREET SOFTWARE SERVICES, INC. and GEAC COMPUTER SYSTEMS, INC.

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATED COURT OF APPEALS FOR THE THIRD CIRCUIT

RESPONDENTS' BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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Attorneys for Respondents

24 pp

QUESTIONS PRESENTED

1. Whether the Third Circuit was correct in finding that particular software maintenance services provided by a particular third-party consultant that involved unauthorized copying, modification, and use of copyrighted software in violation of a particular and unique license agreement constituted copyright infringement.

2. Whether the Third Circuit was correct in holding that alleged evidence of "custom and practice" may not be used to contradict the express terms of a written contract.

3. Whether the Third Circuit properly found that a copyright misuse defense was not available on the facts presented.

4. Whether the Third Circuit correctly found that trade secret claims were not preempted by Section 301 of the Copyright Act where such claims fell outside the scope of protection afforded by the Copyright Act.

PARTIES TO THE CASE

The petitioners, appellees/cross-appellants below, are Grace Consulting, Inc. t/a Grace Maintenance Int. and Anthony Ilutzi, collectively referred to herein as "Petitioners." The respondents, appellants/cross-appellees below, are Dun & Bradstreet Software Services, Inc., now known as Geac Computer Systems, Inc., and Geac Enterprise Solutions, Inc., referred to herein collectively as "Respondents."

Pursuant to this Court's Rule 29.6, Respondent states that Geac Computer Systems, Inc. is now known as Geac Enterprise Solutions, Inc. Geac Enterprise Solutions, Inc. is a wholly own subsidiary of Geac Computer Corporation Limited, a Canadian corporation which is publicly traded on the Toronto Stock Exchange.

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CITATIONS TO REPORTS OF OPINIONS AND ORDERS BELOW

The District Court's opinion dated August 13, 1996 granting Petitioners' motion for summary judgment dismissing Respondents' claim for trade secret misappropriation is unreported. It is reproduced in Petitioners' Appendix at pages 77 to 90.

The jury verdict was rendered in the District Court on June 2, 2000.

The oral opinion of the District Court rendered on August 7, 2000 denying Respondents' motion for judgment notwithstanding the verdict or, alternatively, for a new trial is unreported. A transcript of that opinion is reproduced in Petitioners' Appendix at pages 59 to 74.

The opinion of the Court of Appeals reversing decisions of the District Court is published at 307 F.3d 197. It is reproduced in Petitioners' Appendix at pages 1 through 48.

BASIS FOR SUPREME COURT JURISDICTION

The Judgment and mandate of the United States Court of Appeals for the Third Circuit was issued on September 24, 2002. The Court of Appeals denied Petitioners' Petition for Rehearing En Banc by way of Order dated December 4, 2002. The basis for jurisdiction in this Court is 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

17 U.S.C. § 101. Definitions.

> A "derivative work" is a work based upon one or more preexisting works, such as a translation, musical arrangements, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgement, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work or authorship, is a "derivative work".

17 U.S.C. § 102. Subject Matter of Copyright: In General.

> (a) Copyright protection subsists, in accordance with this title, in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. Works of authorship include the following categories:
>
> (1) literary works;
>
> * * *

17 U.S.C. § 106. Exclusive Rights in Copyrighted Works.

> Subject to sections 107 through 121, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:
>
> (1) to reproduce the copyrighted work in copies or phonorecords;
>
> (2) to prepare derivative works based upon the copyrighted work;
>
> (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or lending;

* * *

17 U.S.C. § 301. Preemption With Respect to Other Laws.

> (a) On or after January 1, 1978, all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103, whether created before or after that date and whether published or unpublished, are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.

(b) Nothing in this title annuls or limits any rights or remedies under the common law or statutes of any State with respect to –

(1) subject matter that does not come within the subject matter of copyrights as specified by sections 102 and 103, including works of authorship not fixed in any tangible medium of expression; or

* * *

(3) activities violating legal or equitable rights that are not equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106;

* * *

17 U.S.C. § 501. Infringement of Copyright.

(a) Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 121, * * * is an infringer of the copyright * * * .

STATEMENT OF THE CASE

Introduction

This is a garden-variety copyright infringement case, unique to its facts and presenting no issue for review by this Court. It arises out of Petitioners' unauthorized use, copying and modification of Respondents' copyrighted proprietary business software. That software, known as "Millennium," is complex business software used by major corporations to perform a variety of accounting and business functions. Petitioners are a third-party provider of computer software maintenance services. As the Third Circuit found below, Petitioners' unauthorized use, copying, and modification of Respondents' software violated the express terms of Respondents' license agreement with their customers. As such, Petitioners have infringed Respondents' copyrights as a matter of law.

There is no reason for this Court to review that finding, as it turns on the straightforward application of long-established copyright law to Petitioners' particular activities and the particular provisions of the applicable license agreements. Although Petitioners strive mightily to identify conflicts among the Courts of Appeals, the opinion below and the relevant case law make clear that, like all other Courts of Appeals, the Third Circuit recognized the basic proposition that the copying, modification and use of copyrighted software without authorization constitutes copyright infringement. Thus, the petition presents no conflict whose resolution could benefit Petitioners.

Nor does Petitioners' assertion that the Third Circuit's decision will impose "severe strictures" on Respondents' licensees in need of after-market maintenance services have any validity. The Third Circuit's decision does nothing to prevent those licensees from doing what they have

always been free to do under the applicable license agreement – maintain the software themselves, contract for maintenance from Respondents, or employ third-party consultants in accordance with the express terms of the license. Nothing in the Third Circuit's opinion alters these options.

Petitioners' claim that the Third Circuit's decision will "wreak havoc" on the after-market maintenance industry is also wholly illusory. The Third Circuit's decision will have no effect on the legitimate companies in this industry – its only impact will be on companies such as Petitioners that seek to build their business on copyright infringement.

The Court's refusal to allow extrinsic evidence of industry custom and practice to alter the plain language of the relevant license agreements similarly does not conflict with any the of this Court's prior decisions or the law of any other Circuit. It simply restates basic contract principles.

Petitioners' claim that the Third Circuit erroneously rejected Petitioners' copyright misuse defense, in conflict with the law of other Circuits, is also erroneous. While reserving the issue of whether it would recognize copyright misuse as a valid defense, the Third Circuit concluded that even if it did so, Petitioners had not submitted any evidence supporting such a defense. Since the Third Circuit reached no legal conclusion as to the availability of the copyright misuse defense, there is no split in the Circuits whose resolution could benefit Petitioners.

Finally, Petitioners' assertion that the Third Circuit erred in concluding that the District Court had improperly dismissed Respondents' trade secrets claim is simply incorrect. Although the question of whether the Copyright Act preempts state trade secret claims was an issue of first impression in the Third Circuit, the court expressly followed

the reasoning of the other Circuits that have previously addressed this issue. Thus, this issue also presents no split among the Circuits requiring resolution.

A. Background of the Case.

This case involves the systematic infringement by Petitioners of Respondents' copyrighted business software. That software consists of a relatively complex system of 12 separate programs that perform a number of accounting functions, including accounts receivable and payable, calculation of withholding taxes, and fixed assets. Pet. App. 3-4.[1] The software, known as "Millennium," is licensed to users and customized by Respondents to fit the customer's specific requirements. *Id.* at 4-5. Millennium runs on mainframe computers and is used by relatively large corporations and institutions. *Id.* at 5. In addition to being copyrighted, the computer code is also a trade secret. *Id.* at 4.

The Millennium software requires regular maintenance. *Id.* at 5. This maintenance generally involves fixing program errors, or "bugs," that might exist in the software, updates and upgrades to the software, repairs, telephone support, and the like. *Id.* This maintenance necessarily requires modification of the underlying computer code, which results in the creation of a "derivative work". *Id.* at 23-25.

Respondents' license agreement with their licensees prohibits anyone from modifying the Millennium software code without Respondents' authorization. *Id.* at 7. Section

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[1] The abbreviations "Pet." And "Pet. App." Refer to the petition for certiorari and its appendix, respectively.

15 of the license agreement permits third-party consultants, in specified instances, to modify the Millennium code provided the consultant has entered into a non-disclosure agreement that has been approved by Respondents:

> Customer may also disclose [Respondents'] confidential information to Customer's consultants who have been retained to perform *work for hire* in connection with Customer's use of the System. All Customer consultants having access to [Respondents'] confidential information will be required to execute a non-disclosure agreement *acceptable to [Respondents]* prior to disclosure. [*Id.* at 99, § 15 (emphasis added).]

Petitioners are a third-party software maintenance provider that was created for the express purpose of providing maintenance services to Respondents' licensees. *Id.* at 5. In 1993, Petitioners began offering a service called "Remain on Release" that included customizing Millennium for Respondents' licensees' specific needs, fixing "bugs" in Millennium, providing tax and regulatory updates, and modifying Respondents' software code. *Id.* at 6. In the course of providing their "Remain on Release" services, Petitioners obtained and made unauthorized copies of Respondents' software, in part through the use of "copy and call" commands, delivered unauthorized copies of that software to Respondents' licensees, and made and sold unauthorized derivative works by modifying Respondents' software. *Id.* at 21, 23-24, 33.

B. Proceedings Below.

a. District Court

Respondents filed this action in the United States District Court for the District of New Jersey in March 1994, alleging that Petitioners had infringed their copyrights and misappropriated their trade secrets by (i) copying Respondents' copyrighted computer software, (ii) modifying Respondents' copyrighted software to create derivative works, and (iii) producing and offering for sale software that contained portions of Respondents' copyrighted software and further copied Respondents' copyrighted software through "copy" and "call" commands. *Id.* at 3, 11-12. Petitioners filed a breach of contract counterclaim, which included a tortious interference claim. *Id.* at 13.

On August 13, 1996, the District Court granted partial summary judgment in favor of Petitioners, dismissing Respondents' state law causes of action, including their trade secret claims, but preserving Respondents' copyright infringement claims. *Id.* at 85-89.

A nine-week jury trial was held, commencing on March 28, 2000. Pet. 10. On June 2, 2000, following the conclusion of the trial, the jury entered a verdict in favor of Petitioners and against Respondents as to Respondents' claim for copyright infringement. Pet. App. 54-57, Respondents then filed a motion for judgment notwithstanding the verdict and for a new trial. *Id.* at 61, 75. That motion was denied by the trial judge. *Id.* at 71, 75. Respondents timely appealed to the Third Circuit. *Id.* at 4.

b. Court of Appeals

In a September 24, 2002, opinion, the Third Circuit reversed the lower court's decisions. *Id.* at 1-51. The heart

of the Third Circuit's opinion was its holding that Respondents were entitled to judgment on their copyright infringement claims as a matter of law. *Id.* at 37. Specifically, the Third Circuit found that Petitioners' activities were infringing and were *not* permitted under the terms of the applicable license agreement between Respondents and their licensees, and that Petitioners had *not* received permission from Respondents themselves to perform these activities. *Id.* at 21-30. The Court also reinstated Respondents' trade secret claim. *Id.* at 44. The Court reasoned that Respondents had presented evidence to support a trade secret claim containing the requisite "extra element" to avoid preemption under 17 U.S.C. § 301 and that there were genuine issues of material fact as to whether trade secrets were misappropriated, making summary judgment inappropriate. *Id.* at 41-44.

Petitioners subsequently petitioned for rehearing *en banc*. *Id.* at 53. In a December 4, 2002 Order, the Third Circuit denied Petitioners' petition. *Id.* Petitioners then unsuccessfully moved for a stay of the Third Circuit's mandate while they petitioned this Court for certiorari. Petitioners filed their petition on March 4, 2003. Pet. 20.

REASONS WHY THE PETITION SHOULD BE DENIED

I. THE THIRD CIRCUIT CORRECTLY FOUND THAT THE MAINTENANCE SERVICES PROVIDED BY PETITIONERS VIOLATED THE TERMS OF RESPONDENTS' LICENSE AGREEMENT AND CONSTITUTED COPYRIGHT INFRINGFEMENT

Petitioners assert that the Third Circuit's conclusion that Petitioners infringed Respondents' copyrights as a matter of law was in error, and present several supposedly "substantial" issues for resolution by this Court. Each of those purported issues, however, relies on a misstatement of the record and a misrepresentation of the Third Circuit's decision. Because there is no legitimate issue for this Court to consider, the petition should be denied.

A. There Is No "Substantial Question" As To Whether Respondents' License Agreement Allows Third-Party Maintenance

Petitioners' first argument is that the Third Circuit erred in finding copyright infringement as a matter of law because Respondents' license agreement expressly permits third party maintenance. Pet. App. 21-25; Pet 12. Petitioners claim this presents a "substantial question" for this Court because it will void "thousands" of license agreements and "wreak havoc" on "hundreds" of other independent service organizations ("ISOs"). Pet. 12-13.

The Third Circuit's decision will do no such thing. To begin with, Petitioners did *not* comply with the terms of Respondents' license agreements while performing maintenance, and the purported "unrefuted evidence at trial" (*id.* at 6) that Petitioners complied with Respondents' license

agreements simply does not exist. As the Third Circuit explained,

> Although [Petitioners] assert[] that every one of [their] consultants signed a non-disclosure agreement when they worked on DBS software, we can find none of record except the Hutto document. [Petitioners] fail[] to point to any evidence of non-disclosure agreements signed by [them] or [their] employees with any of [their] customers.[2] [Pet. App. 25.]

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[2] As it did in the petition for rehearing that it filed with the Third Circuit, Petitioner seeks to have this Court consider documents that were not admitted into evidence at trial and do not constitute part of the record on appeal. These documents are a purported license agreement between Petitioner and one of its customers and a non-disclosure agreement for one of Petitioner's consultants (Pet. 6-7; Pet. App. 105-12). Because these materials have never been properly placed before any court in connection with this case, any reference to them in the petition for certiorari or its appendix is wholly inappropriate. *See Bass v. Attardi*, 868 F.2d 45, 51 (3d Cir. 1989) (*quoting United States ex. rel. Bradshaw v. Alldredge*, 432 F.2d 1248, 1250 (3d Cir. 1970) (court "may not consider material or purported evidence which was not brought upon the record in the trial court")); *accord Osborne v. United States*, 351 F.2d 111, 120 (8th Cir. 1965) (motion to stay mandate and remand; court could not consider materials that were not part of record on appeal). Similarly, throughout its Statement of the Case, Petitioner makes repeated references to "facts" that are not contained in the record, and for which it can offer no citation to any of the materials in the appendix. For example, its recitation of supposed "facts" relating to the market for the software and maintenance services at issue in this case is not supported by single citation to the record. These "facts" also do not warrant any consideration by this Court.

Moreover, the Third Circuit's decision was based on the specific conduct of Petitioners and the specific terms of *Respondents'* license agreement, and thus will have no effect on the services provided by *other* companies under *other* license agreements.[3]

Petitioners also argue that if the Third Circuit's decision is not reversed, "no consultant could ever perform maintenance services." Pet. 13. This totally misstates the scope and nature of the Third Circuit's decision. The decision merely recognizes the plain terms to which *these* Respondents' customers have agreed regarding the maintenance services that will be permitted with regard to *this* software, which terms expressly permit such services so long as they are provided by an entity that has executed a non-disclosure agreement *acceptable to Respondents*. Pet. App. 4-5, 99. If this requirement is met, then customers remain free to retain consultants to provide services.

In fact, the *only* entities that will be adversely affected by the Third Circuit's decision are Petitioners, who have built their business on the infringement of Respondents' software. As the Third Circuit itself has previously recognized, however, the fact that a business cannot survive without engaging in infringement does not legitimize such infringement. *See Apple Computer, Inc. v.*

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[3] It is beyond question that this Court does not render advisory opinions. *International Longshoremen's and Warehousemen's Union, Local 37 v. Boyd*, 347 U.S. 222, 223-24 (1954) (Frankfurter, J.) (Supreme Court does not issue advisory opinions as to hypothetical situations). Yet that is exactly what Petitioner would have the Court do if it addressed whether other allegedly "similar" contracts that are *not* before the Court do or do not allow *other* third-party maintenance of *other* companies' software. The Court should eschew that invitation.

Franklin Computer Corp., 714 F.2d 1240, 1255 (3d Cir. 1983) (considering the "devastating effect" of a preliminary injunction on an alleged infringer's business would permit "a knowing infringer . . . to construct its business around its infringement, a result we cannot condone"). Accordingly, the Third Circuit's decision fails to provide *any* basis for review by this Court with regard to the scope of Respondents' license agreement, much less a substantial question.

B. There Is No Conflict Among The Circuits For This Court To Resolve Regarding The Scope Of Respondents' License Agreement

Petitioners contend that the Third Circuit's decision finding copyright infringement as a matter of law is "directly contrary" to the decisions of other Circuits. Pet. 13. In support thereof, Petitioners cite to the Fifth Circuit's decision in *Hogan Sys., Inc. v. Cybersource Int'l, Inc.*, 158 F.3d 319 (5th Cir. 1998). This is the same argument Petitioners unsuccessfully advanced in their petition for rehearing *en banc* before the Third Circuit, and in their unsuccessful motion to stay that court's mandate pending the outcome of their petition for certiorari. In fact, there is no conflict between the two cases. Rather, each case turned on the application of the same law to the specific wording of the particular license agreement in issue. *Compare* Pet. App. 15-37 *with Hogan*, 158 F.3d at 322-24.

In *Hogan*, the maintenance activities were *specifically allowed* by the applicable license agreement. *Hogan*, 158 F.3d at 322-24. Indeed, the *Hogan* court noted that the plaintiff could have specifically prohibited ISOs from providing consulting services under its license agreement if it had wanted to do so. *Id.* at 323. Here, Petitioners' license agreements contained just such a specific

prohibition. Pet. App. 7-11, 98-99. In both cases, the legal analysis was the same. The supposedly "conflicting" outcomes then are the result of the same law being applied to different facts.

C. There Is No Issue For This Court To Resolve As To Petitioners' Use Of "Copy" And "Call" Commands

Petitioners assert that this Court will have to resolve the issue of whether the use of "copy" and "call" commands constitutes copyright infringement, or is permitted under the doctrine of *scenes a faire*. Pet. 14. Under that doctrine, similarities between two programs will not support a finding of infringement where the similarities result from the need to accommodate external constraints such as mechanical specifications, compatibility requirements, or accepted programming practices. *See Computer Assocs. Int'l, Inc. v. Altai, Inc.*, 982 F.2d 693, 709 (2d Cir. 1992), *Mitel, Inc. v. Iqtel, Inc.*, 124 F.3d 1366, 1375 (10th Cir. 1997), and *Gates Rubber Co. v. Bando Chem. Indus., Ltd.*, 9 F.3d 823, 838 (10th Cir. 1993)

In its opinion, the Third Circuit found that the use of "copy" and "call" commands was an infringement where it resulted in 62% of one of Petitioners' programs (their CNR W-2 program) and 43% of another (their GMI W-2 program) consisting of code copied from Respondents' copyrighted software. Pet. App. 20. The Third Circuit specifically found that this copying was both quantitatively and qualitatively significant. *Id.* at 20-21. The Third Circuit also expressly adopted the reasoning of the courts in *Computer Associates*, *Mitel* and *Gates*, the very cases that Petitioners claim conflict with the decision below, in finding that Petitioners' copying was not permissible under the *scenes a faire* doctrine because, when viewed from the standpoint of the creator of the software, the software was not constrained by any

external factors, and, thus, no parts of Respondents' software were unprotectable. *Id.* at 33-36. Thus, this issue presents only the application of well-established law, as to which there is no split among the Circuits, to the unique facts of this case.

D. Custom And Practice Cannot Be Used To Vary The Unambiguous Terms Of A Contract

Finally, Petitioners claim that this Court should resolve the "seminal legal question" of whether alleged evidence of "custom and practice" may be used to vary the unambiguous terms of Respondents' license agreement with their customers. Petitioners assert that the Third Circuit's refusal to consider extrinsic evidence of an alleged industry custom and practice of permitting off-site maintenance activities, or evidence of the alleged course of conduct between the parties, was contrary to the Third Circuit's decisions in *Langer v. Monarch Life Ins. Co.*, 879 F.2d 75, 81 (3d Cir. 1989), *Northbrook Ins. Co. v. Kuljian Corp.*, 690 F.2d 368, 372 (3d Cir. 1982), and *Mellon Bank v. Aetna Bus. Credit*, 619 F.2d 1001, 1011 (3d Cir. 1980), and in direct conflict with the decisions of other Circuits, including *Bloom v. Hearst Entm't, Inc.*, 33 F.3d 518, 521-22 (5th Cir. 1994) and *Power Lift, Inc. v. Weatherford Nipple-Up Sys., Inc.*, 871 F.2d 1082, 1085 (Fed. Cir. 1989). Pet. 15. In fact, the Third Circuit's decision is consistent with these decisions in every respect.

The cases Petitioners cite do not stand for the proposition that industry "custom and practice," or even the "course of conduct" between the parties, can contradict a contract's explicit terms. Rather, they stand for the uncontroversial proposition that where a contract is *ambiguous*, the parties' course of conduct or industry custom with respect to the use of certain terms can assist in

interpreting the written contract, but cannot *contradict* existing terms. *Bloom*, 33 F.3d at 521-22 (extrinsic evidence is only admissible if a contract is found to be ambiguous; whether an ambiguity exists is a question of law); *Northbrook*, 690 F.2d at 372 (the unambiguous words of a contract are to be given their plain meaning); *Mellon*, 619 F.2d at 1013 (although extrinsic evidence may be considered under proper circumstances, the parties remain bound by the objective meaning of the words they used to express their intent).[4]

Although extrinsic evidence *may* be used to determine whether a contract is ambiguous, it is well settled that it may *not* be used to vary the unambiguous terms of an agreement, or to create an ambiguity where none exists. *See International Union, United Auto., Aerospace & Agric. Implement Workers of Am. v. Skinner Engine Co.*, 188 F.3d 130, 145 (3d Cir. 1999); *American Cyanamid Co. v. Fermenta Animal Health Co.*, 54 F.3d 177, 181 (3d Cir. 1995) (*citing Atlantic N. Airlines, Inc. v. Schwimmer*, 96 A.2d 652, 656 (N.J. 1953)). *Cf. Kademenos v. Equitable Life Assur. Soc'y of U.S.*, 513 F.2d 1073, 1078 (3d Cir. 1975) (Kalodner, J., concurring) (evidence of custom is inadmissible to vary unambiguous terms).

The cases cited by Petitioners acknowledge these principles. *See Northbrook*, 690 F.2d at 372 n.5 (extrinsic evidence may be used to show that a contract is ambiguous, but not to vary its terms); *Mellon Bank*, 619 F.2d at 1013

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[4] Petitioner's reliance on *Power Lift, Inc. v. Weatherford Nipple-Up Systems*, 871 F.2d 1082 (Fed Cir. 1989), is entirely misplaced. That patent license case has nothing to do with evidence of industry custom and practice, but rather stands for the basic proposition that a license agreement is governed by ordinary state contract law. *Id.* at 1085.

(parties are bound by the objective meaning of the words used to express their intent); *see also Langer,* 879 F.2d at 81 (contract ambiguous on its face). Indeed, there is *no* case that stands for the extraordinary proposition advanced by Petitioners that industry custom and practice can contradict and supercede the express terms of an unambiguous contract.

Here, the license agreement unambiguously limits each customer's use of Respondents' software to the customer's *own site*, and solely for that customer's use. Pet. App. 92-93, § 2. Nothing in the license agreement even remotely suggests that *off-site* copying and modification of the software by a third party, *without Respondents' approval*, was ever contemplated or approved by Respondents. Thus, by seeking to introduce extrinsic evidence of the alleged custom and practice of the after-market maintenance industry or even of Respondents, Petitioners impermissibly ask this Court to sanction the use of extrinsic evidence to alter the plain terms of Respondents' license agreement. As the Third Circuit itself noted, custom and practice "is no authority to disregard or trump the specific terms of a valid license agreement." *Id.* at 27.

Finally, contrary to Petitioners' assertion, the Third Circuit's decision is also entirely consistent with its prior decision in *MacLean Assocs. Inc. v. Wm. M. Mercer-Meidinger-Hansen, Inc.*, 952 F.2d 769, 778-79 (3d Cir. 1991), which simply noted that a non-exclusive copyright license need not be in writing, but may be implied from the parties' conduct. Here, as in *MacLean*, there was no evidence introduced at trial of a broad implied non-exclusive license that would insulate Petitioners' activities from liability for infringement. *See MacLean*, 952 F.2d at 779. Thus, this issue also does not warrant review by this Court.

II. THE THIRD CIRCUIT PROPERLY CONCLUDED THAT NO COPYRIGHT MISUSE DEFENSE WAS AVAILABLE ON THE FACTS OF THIS CASE

Petitioners' contention that this case presents a split in the Circuits regarding the viability of a copyright misuse defense is also mistaken.

The Third Circuit specifically reserved the issue of whether it would recognize copyright misuse as an infringement defense. Pet. App. 47. The Third Circuit held, however, that even if copyright misuse were recognized as a defense, there was *no* evidence in the record that Respondents had misused their copyrights. *Id.* Because the Third Circuit made no holding as a matter of law with regard to the availability of a copyright misuse defense, its decision could not possibly give rise to a split among the Circuits whose resolution could benefit Petitioners.

III. THE THIRD CIRCUIT CORRECTLY FOUND THAT RESPONDENTS' TRADE SECRET CLAIMS WERE NOT PREEMPTED

Petitioners claim the Third Circuit's decision regarding Petitioners' trade secrets claim, which the Third Circuit held was not preempted by the Copyright Act, conflicts with the decisions of other Circuits.

Although the Third Circuit acknowledged in its opinion that it had not yet addressed this issue, the Third Circuit also noted that "we are not without guidance or a framework." Pet. App. 38-39. The Court then followed the lead set by *every other Court of Appeals* to consider this question, holding that a trade secret claim that asserts a breach of a duty to maintain a trade secret in confidence contains an "extra element" beyond the exercise of the

exclusive rights set forth in § 106 of the Copyright Act and will not be preempted. *Id.* at 40-41 (*citing Data General Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1165 (1st Cir. 1994); *Gates Rubber Co. v. Bando Chem. Indus., Ltd.*, 9 F.3d 823, 847-48 (10th Cir. 1993); *Trandes Corp. v. Guy F. Atkinson Co.*, 996 F.2d 655, 660 (4th Cir. 1993); *Computer Assocs. Int'l, Inc. v. Altai, Inc.*, 982 F.2d 693, 717 (2d Cir. 1992)).

In light of the Third Circuit's express reliance on, and adherence to, the multiple decisions by other Courts of Appeals on this issue, there is no split in the Circuits as to this issue whose resolution would benefit Petitioners, and thus nothing for this Court to address.

CONCLUSION

For the foregoing reasons, the petition for certiorari should be denied.

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